

Financial Stability Report

First Half 2008



BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

Financial Stability Report
First Half 2008

ISSN: 1668-5164
Online edition

Publication date | March 2008

Published by Economic and Finance Deputy General Management

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Contents, coordination and layout | Financial System and Capital Markets Management

Publishing design | Image and Design Area, Institutional Relations and Communications Senior Management

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Preface

Financial stability is a state of affairs in which the financial services sector can channel the savings of the population and provide a nationwide payments system in a manner that is efficient, secure and sustainable over time. In the framework of the execution of consistent and stable macroeconomic policies, the resilience of the financial sector in the face of negative shocks serves to define the degree of approach towards a financial stability scheme.

The strong interrelationship between financial stability and sustained economic growth explains why the former is a social good that the state has to generate and protect. This is why the promotion of financial stability is one of the principal functions of most central banks.

The Central Bank of Argentina, according to article 4 of its charter, has a mandate “to supervise the sound operation of the financial market”. It is the Central Bank understanding that in order to enhance the effectiveness of the policies that it undertakes its usual regulatory and supervisory powers must be complemented by a communications strategy that is transparent and accessible to the public in general.

With this purpose in mind it publishes the Financial Stability Report (FSR) that presents an overall assessment of developments in the conditions of financial stability. In the FSR the different channels of information that are available on the subject are merged, to provide the Central Bank’s views on the outlook for the financial system. Furthermore, between each half-yearly issue of the FSR, the Central Bank releases a monthly Report on Banks to keep the public up to date about the more recent developments in the financial system.

According to the depth of detail that the reader requires, the FSR can be approached in two different ways. Reading the Central Bank Outlook and the Balance of Risks, together with the summary and main topics of each chapter, enables the reader to grasp the gist of the FSR. Naturally, a full reading of the FSR provides an in depth evaluation of the issues it covers, enriched by the treatment of special topics that are included in the Boxes.

The date of publication of the next issue of the FSR, with statistics up to the end of June 2008, will be on September 30, 2008, on the Central Bank website.

Buenos Aires, March 31, 2008

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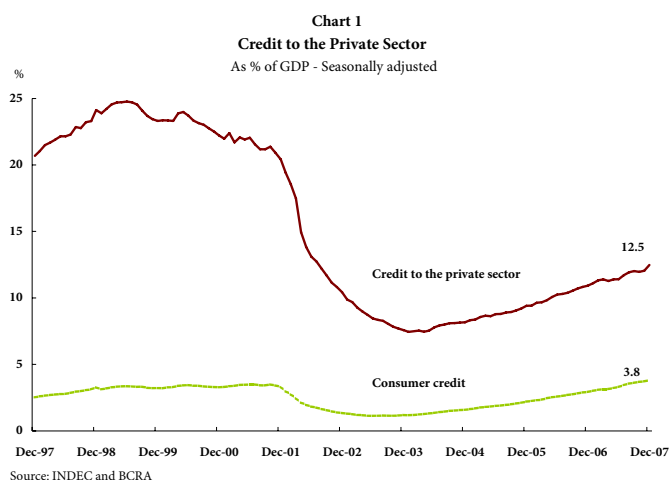
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Central Bank Outlook



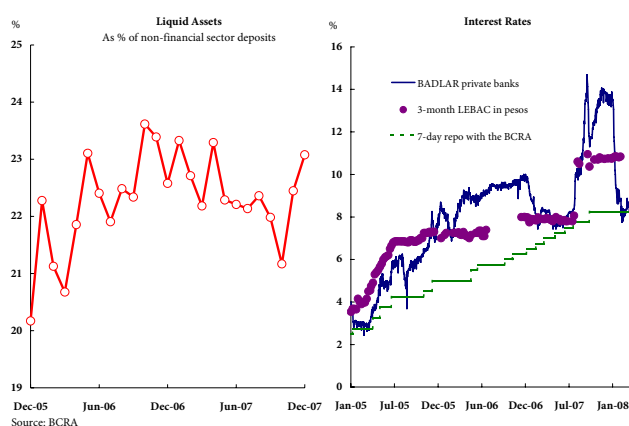
The monetary and financial framework designed by the Central Bank is enabling the more volatile international scenario to be faced successfully, managing to sustain adequate levels of systemic liquidity and therefore avoid a possible deceleration in the expansion of the financing to the private sector that might negatively affect the pace of economic expansion. The increasing uncertainty on the international financial markets was reflected on the domestic capital markets, which exhibited volatile values with falling prices in late 2007 that impacted on the investment portfolios of the local financial sector. It is estimated that this scenario will persist during 2008 if a higher probability of a recession in US is seen, possibly affecting the global economy. In this context and looking ahead, although the financial system shows a risk map with minor changes, the solvency levels place it in a more robust position than in the past to face a more complex scenario.

The domestic financial system registered a significant growth of its financial intermediation during 2007. The increase in bank credit to companies and households was more than 40% for the third consecutive year, achieving 12.5% of the GDP, almost 5 p.p. above the post-crisis minimum. This momentum occurs together with limited levels of exposure to the private sector credit risk, while there is a lower exposure to the public sector credit risk. On the other hand, the private sector deposits consolidated as the main source of bank funding in 2007, while the use of funds from the capital markets exhibited a deceleration at the end of the year. The deepening of financial intermediation continues consolidating banking profitability and solvency, to enable it to withstand an international scenario with new challenges in 2008.

During the second half of 2007 the total deposits of the private sector increased 22%a., with slightly more dynamism in sight deposits respect to time deposits. Although the worsening of the international context in the second half of the year led the banks to temporarily postpone new issues of corporate bonds (ON), these issues totaled almost \$2 billion (62% more than the year before).

As a signal of the almost complete balance sheet normalization, certain elements associated with the 2001-2002 crisis are close to disappear. On the assets side, the cumulative amortization of court ordered releases by the financial system totaled almost 90% of total court ordered releases. Meanwhile, regarding liabilities, rediscounts granted by the Central Bank continued their process of accelerated cancellation, and at present account for only 0.5% of liabilities.

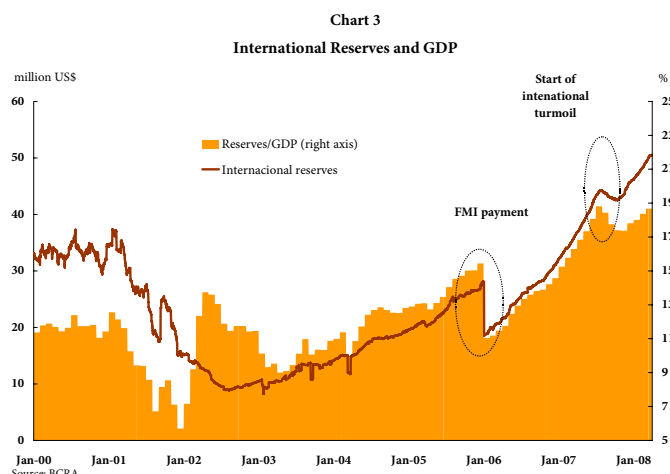
Chart 2
Liquidity



The expansion of financial intermediation continues happening in a framework of limited risks. In the second half of the year the banks increased the funds channeled to the private sector without neglecting strengthening their prudential liquidity levels. At the end of 2007 liquid assets of the banking system were 23% of deposits, or 38.5% considering the Central Bank securities. This stock of liquidity is a precautionary response to a more volatile international framework with repercussions on the local markets for inter-bank liquidity, leading to specific increases of the short term interest rates in the third quarter, which then returned to normal after the measures taken by the Central Bank.

In order to face the domestic impact of the international scenario the Central Bank injected liquidity into the market, with a particular role of the Lebac and Nobac as a monetary regulation mechanism standing out. In this manner it managed to avoid possible adverse effects on the momentum of credit to the private sector, and therefore keep away from an unfavorable impact on the rhythm of economic growth, among other elements. Specifically, liquidity injections were made through different mechanisms: repurchases on secondary markets of securities in pesos issued by the Central Bank, auctions to repurchase Lebac and Nobacs, repo auctions, arrangement of seven day repos at a fixed interest rate, suspension of the Central Bank calls for security auctions, and the inclusion of sovereign bonds as eligible assets to arrange repos with the Central Bank. With the purpose of preserving its role as a monetary absorption mechanism and as a liquidity reserve, and to avoid distortions due to activity by foreign investors the Central Bank decided to issue domestic Lebac and Nobac which are only traded locally and between residents. Furthermore, two-month periods to calculate minimum reserve requirements were included, as well as the December-February period, and the minimum daily reserve requirement was reduced from 50% to 40%.

The banking system continues sustaining a sound position against to private sector credit risk, in a framework of growing financing to this sector (almost 41% of its netted assets). The prospects for household incomes and corporate profitability, added to the adequate financial profiles in a framework of bank provisions that amply exceed the non-performing portfolio, summarize a limited bank exposure to counterparty risk of this sector. At the end of 2007 the non-performance ratio remained at a historically low level of 3.2%. The corporate loan performance continued improving at the end of 2007, while the non-performance credit lines to households remained stable, after a moderate growth showed during the first months of the year. This latter change was driven by the consumer credit lines. Such credit lines will be the target for further monitoring with the purpose of limiting possible adverse impacts to eventual changes in the macroeconomic and financial context.



On the other hand, the financial system continued reducing its exposure to the public sector credit risk, by dropping government securities in its portfolio (to 17.1% of netted assets) together with the sound performance of the sector, mainly associated with the primary surplus obtained and the reduction of indebtedness level.

The financial system recorded a moderate increase of its foreign currency risk exposure during the second half of 2007, a change driven by an increment of its foreign currency futures contracts and by some growth in the fluctuations in the peso-dollar exchange rate. This volatility originated in the context of international turmoil was moderated by the Central Bank policy of intervention on the spot and futures foreign exchange markets. The importance of the international reserve accumulation policy as a prudential instrument was thus proved. As from November 2007 the Central Bank resumed its strategy of accumulating international reserves, which exceeded US\$50 billion at the end of March 2008.

Gradually, the banks were able to mitigate their exposure to the interest rate risk, a trend led by the contraction of the public sector assets in their portfolio, which fundamentally have a relatively longer maturity and a fixed interest rate. The exposure to the real interest rate risk (associated with the mismatch of assets with CER adjustments) remains at high levels, but it continues contracting due to the fall of the adjustable assets in the portfolio. The recent adoption of the interest rate swap mechanism by the Central Bank will be a qualitative step forward in the alternatives that banks have to cover the interest rate risk in a framework of longer lending maturity.

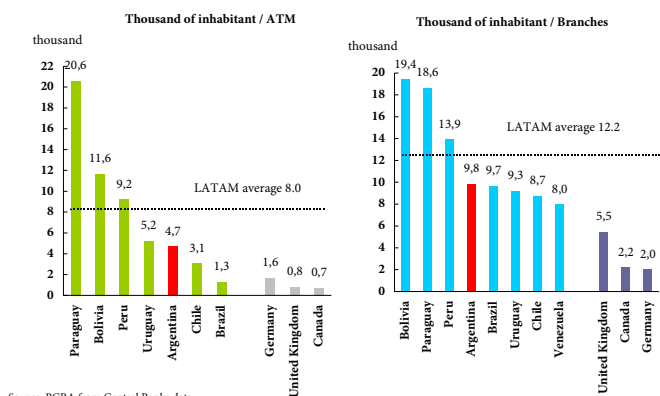
In the second half of 2007 the market risk assumed by banks increased, driven by the scenario of international turmoil. With the purpose of avoiding excessive net worth fluctuations, the Central Bank authorized booking the securities held to maturity in investment accounts and in available for sale accounts.

Encouraged by the expansion of financial intermediation with the private sector, the profitability of the banking system totaled 1.2%a. of assets in the second half of 2007 (1.5% for the year). At the end of 2007 the bank profits were influenced by the impacts of the international volatility framework on the local capital markets and by the higher operating costs in connection with the growth of employment and wages in the sector. This was partly offset by the expansion of the recurring revenues: net interest income and net service income.

In the second half of 2007 the financial system continued increasing its soundness, a trend led by profits combined with fresh capital injections. Therefore, during the second half of 2007 the net worth of banks exhibited a \$1.3

Chart 4

Access to Banking Services - Regional Comparison



billion (7.4%a.) increase, with almost \$900 million (\$1.9 billion in 2007) of capital contributions. The banking system in this manner sustains its capacity to face the impacts of external shocks, with a capital compliance level of 16.8% of its risk weighted assets, higher than the minimum levels required locally and the internationally recommended ratios.

With the purpose of stimulating a more integrated development of the country there are several dimensions of the banking system that call for progress. Medium and long term credit for investment purposes and for housing needs have to be deepened, in addition it is needed to achieve a better channeling of funds to micro-enterprises and to small and medium enterprises (SME), also increasing the access to and use of banking services in different regions and between socio-economic strata, deepening the monitoring of the expansion of consumer credit and continuing on the path towards the adoption of the Basel II recommendations.

The Central Bank, in addition to its main contribution associated with ensuring the domestic monetary and financial stability has already started to adopt specific measures to move forward with this agenda. On one hand, incentives were generated to achieve a longer maturity of bank liability terms, making the adequate changes in the liquidity requirements, authorizing time deposits at a floating interest rate with a minimum interest rate guaranteed, and recording hybrid debt instruments as capital. As incentives for credit to micro-enterprises and SME, granting guarantees by mutual guaranty companies (SGR) was eased and discounts of deferred payment checks was speeded up. In order to increase access to the financial services, capital requirements were defined that depend on regional characteristics, opening mobile operating branches in geographical zones with low levels of access was authorized, and the requirements to set up new cooperative credit unions was made more flexible. Likewise, a road map to comply with Basel II was established.

Looking ahead at 2008, a deepening of the turbulent scenario on the international markets appears as a challenge for the development of the financial systems in the emerging economies. In the case of Argentina, the continuity of economic activity growth, in a framework of consistent fiscal, foreign trade, monetary and prudential policies, will consolidate the domestic financial stability.

I. Internacional Context

Summary

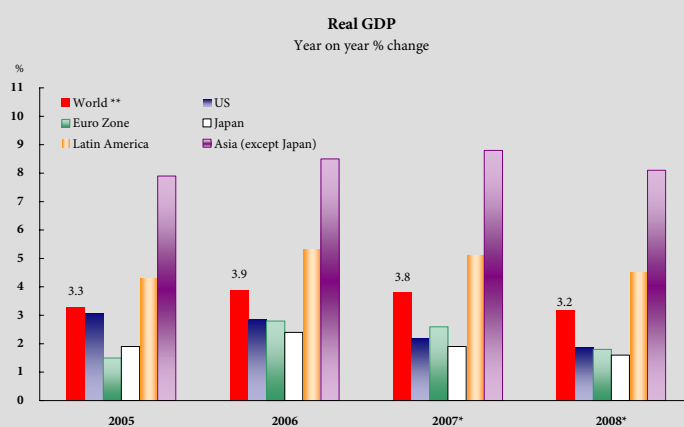
The international context has deteriorated since the second half of 2007, when concerns about the weakness of the housing sector in the US and the segment of subprime mortgages increased. This scenario together with the vulnerability observed in certain indicators of activity in the major economies of the world, increased the risk of a global slowdown more than expected: the projected growth of the economies, in general, were revised downward for 2008 with a greater adjustment especially in the case of developed countries. In this context, the central banks of the major world economies eased its monetary policy. In particular, the Fed cut the rate of the Fed Funds on several occasions. For their part, both the ECB and the BoJ kept unchanged their reference rates, when in the middle of last year, a continuation of the upward cycle was expected.

The rise in commodities, especially the price of crude oil and food, was reflected in the growth acceleration of the general price index since the second half of 2007. In this context, during 2007 inflation in US was 4.1% and in the euro zone 3.1%, which was higher than the ECB's target. Japan also showed a higher rate of increase in prices, reaching an inflation rate of 0.7% in 2007, the highest rate in recent history. However, while there are still inflationary pressures, originated mainly in the prices of raw materials and the risks associated with second-round effects, it is expected that inflation will tend to slow down

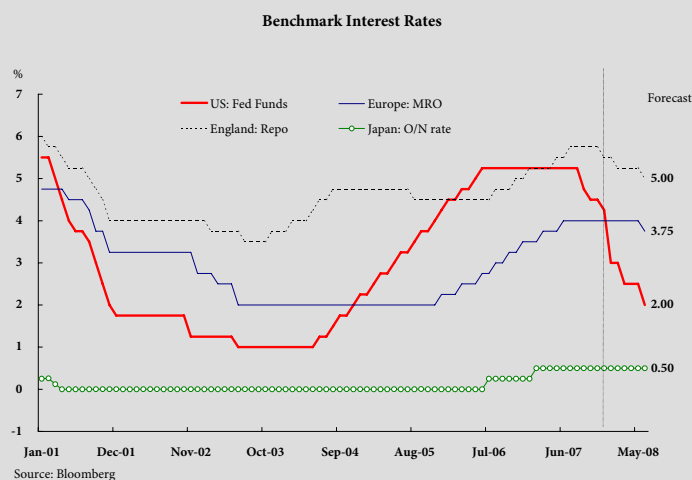
in a context of weakening of the global economic activity during 2008.

While various financial assets of emerging economies were affected by the turbulence since mid-2007, prices showed some strength, with a relatively minor impact with respect to previous crisis. However, the stock indices of emerging economies had a volatile behavior, closely following the indices of developed economies. Moreover, following the price behavior of different types of assets, currencies of emerging countries showed significant volatility in the second half of 2007. Finally, in the same period, debt issuance of countries and companies were reduced, ensuring some postponements and cancellations of scheduled placements.

While Latin America financial systems show low exposure to assets from developed countries, the turbulence in international markets are testing their soundness. In this context, banks in the region are better prepared than in the past to withstand negative shocks. The solvency strengthening showed by the Latin American financial systems was associated with the expansion of financial intermediation with the private sector, in a context of relatively stable balance of risks. The positive scenario contributed to improve solvency levels of Latin American banks, placing them above international recommendations and financial systems of other regions.



* Forecasted; ** Mentioned rates are calculated using market exchange rates.
Source: Focus Economics



I.1 International conditions

International volatility deteriorated credit markets scenario

The international context has become more unfavorable in the second half of 2007 because of the deepening deterioration of the US real estate sector and its impact in the international credit markets. In particular, while there was an increasing concern about the weakness of the housing sector in the US and the segment of sub-prime mortgages, it was observed since late July, a resurgence of volatility in international markets, a search for refuge of less risky relative assets and some globally repricing of risk. With banks and investment funds creating awareness of the negative impact of their exposure to the high-risk mortgage sector, uncertainty proliferated in the market (see Chart I.1). This resulted in a further deterioration of the credit markets (particularly the interbank market), which would be deepened in November forcing the monetary authorities of the central economies to relax their monetary policy.

Facing a higher perceived risk, there was a search for relative less risky assets, originating a downward pressure on yields of Treasuries (which, in turn, was accompanied by the policy of cutting rates from the Federal Reserve). This impacted, to a greater extent, in the titles of shorter-term (see Chart I.2), which resulted in a steepening of the American yield curve.

The risk of a global slowdown increases more than expected, especially in developed economies

The deepening of financial turmoil and the weakness observed in certain activity indicators in the major economies of the world, have increased the risks of a global slowdown more than expected. Thus, the projected growth of the economies in general was revised downward for 2007 and 2008, with a greater adjustment in the estimates for expansion in 2008 (especially in the case of developed countries). Thus, the overall economy would have grown 3.8% in 2007, however it is forecasted a slowdown in 2008 to an estimated growth of 3.2% (see Chart I.3).

In particular, after several downward revisions for this year, it is expected that the US will expand between 1% and 2%, a lower rate than in 2007 (2.2%) and than the average for the last six years (2.7%). However, new revisions of growth projections are not ruled out given the increased risks associated with a more pronounced

Chart I.1
Interbank Rate Spreads and Financial Perceived Risk

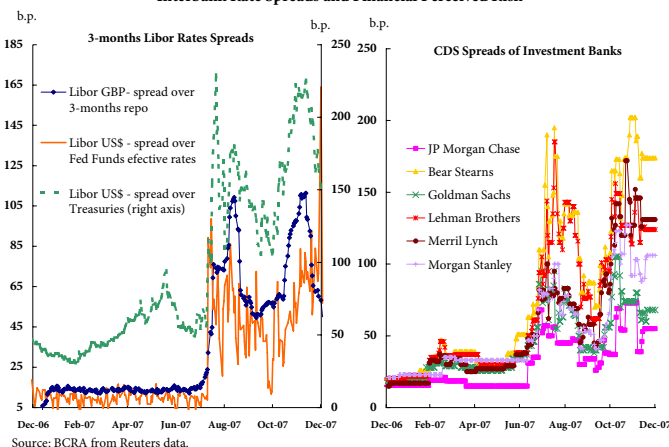


Chart I.2
US Interest Rates

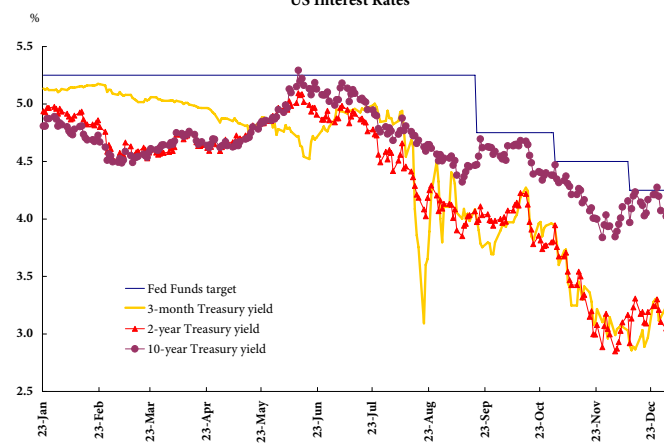
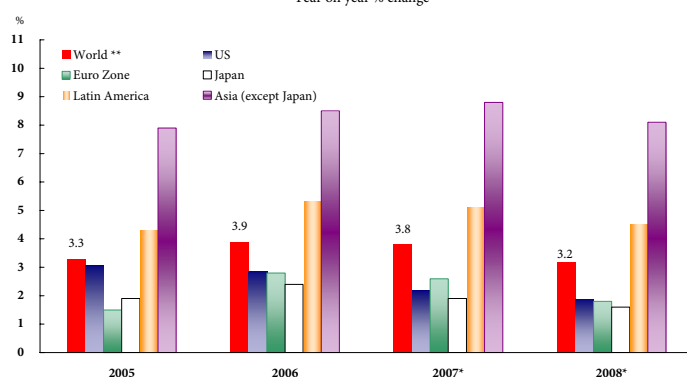


Chart I.3
Real GDP
Year on year % change



* Forecasted; ** Mentioned rates are calculated using market exchange rates.
Source: Focus Economics

Box 1 / Financial Depth and Economic Development

While still in force the debate on the direction of causality, there is consensus on the positive relationship between financial depth and economic development. In another dimension of this relationship, it is noticeable the marked negative impact of financial instability episodes on the economic growth rates. This situation has prompted regulators to participate actively, thus mitigating market failures and updating their regulation and supervision frames. In particular, in a context of financial innovation, regulators seek for improvements in the risk management processes.

In a situation like the present one, with growing turbulence in the financial markets, the traditional debate on the relationship between depth on the financial markets and the economic performance arises. While there is consensus on a positive relationship between more developed financial markets and economies of larger size, conclusive evidence on causation is yet to be found. In the economic literature there are those who argue the existence of a positive influence on the depth of financial markets over the per capita growth of an economy and / or its rate of growth (Schumpeter, King Levine, Demirguc-Kunt, Rajan). By contrast, other studies have shown the inverse causality, they argue that financial markets develop is driven by the real sector (Robinson Mejer, Seers, Luke).

There are several explanations regarding why financial institutions help economic growth. In macroeconomic terms, financial institutions encourage savings, improve and diversify investment risks. These features help to improve the productivity and efficiency of an economy, and smooth consumption in an intertemporal horizon, which leads to generally higher growth rates. In addition, according to the microeconomic point of view, capital markets as well as financial entities can reduce costs of information and operating costs of the economic agents. In other words, financial development may reduce market imperfections. Therefore, financial depth may affect savings rates, investment decisions, technological innovations, and therefore, the rate of long-term growth.

Similarly, on many occasions it was observed that episodes of financial market crises have very large negative effects on economic growth. In this line, it was noticeable that during financial turbulences, it became evident that disruptions in the provision of financial intermediation services and means of payment have strong negative consequences with externalities on the real economy. Because of this and the increase in the fre-

quency of financial crisis, in recent years it became relevant the idea that financial stability is a basic prerequisite for sustained growth of the economy in general.

Latin America was the benchmark region, in terms of the financial crises: frequent crisis events in recent decades, came about with significant fiscal costs and loss of wealth of the population; thus having a negative impact on the medium and long term growth rates of the different economies of the region. The fiscal costs of the financial crisis in Latin America in recent decades, have been over 20% of GDP, more than doubling the values showed, in other episodes of crisis, in the OECD countries and almost a third more than in other emerging economies (World Bank). Compared with other regions, Latin America is above both in terms of the average number of crisis per country and by the recurrence of such incidents in each country in the period 1974-2003. Thus, 35% of the countries in the region recorded recurrent crisis, almost tripling to what was observed in other regions.

Following the crisis episodes, in recent years the role of Central Banks (CB) and regulators took special emphasis in achieving an efficient and effective supervision of financial systems, also providing an appropriate platform for monetary and financial stability. These factors drive the development of financial intermediation, minimizing the probability of financial stress, and thus stimulating the growth of the productive sectors and the potential consumption.

Nevertheless, today there are new challenges in order to achieve the CB's goal of financial stability: the continuous process of innovation in the markets and financial products. The financial innovation covers mainly the development of more sophisticated new financial products, in order to face different types of risks and capture new market niches, creating financial markets more complete and complex.

Growth and complexity of the markets, coupled with the emergence of financial conglomerates, could cause some conflict from the point of view of the regulator. On the one hand, there may be regulatory arbitrage situations in which investments are transferred to the sectors that are less controlled and /or are less tax-imposed. Also regulatory overlaps may occur due to the overlapping of different regulators on the same product or financial intermediary. Lastly, the innovative features of financial products (or intermediaries) can generate the absence of a clear definition of a responsible supervisor, generating

regulatory gaps. The existence of regulatory risks, in the current context of continuous innovation in international financial markets, weakens the conditions of financial stability, reducing the expected positive impact of financial development on economic growth. However, there is a need for a balance in the prudential regulatory platform and of supervision, minimizing regulatory risks without discouraging financial innovation.

The mechanisms of coordination among financial regulators and the frameworks of consolidated supervision raise some solutions to some of the potential distortive effects of the financial innovation process, incorporating the possibility of obtaining greater extent in regulation and supervision. In an extreme version of coordination lies the integrated monitoring frame. A single regulator, with clear and consistent objectives, benefit a coherent monitoring focused on relevant risks, thereby facilitating the adoption of international standards.

However, the integrated regulatory platform exhibits certain challenges:

- Different priorities
- Regulator's capture becomes more feasible
- Complex administration
- Diffuse goals
- Distortion in the public perception about safety nets

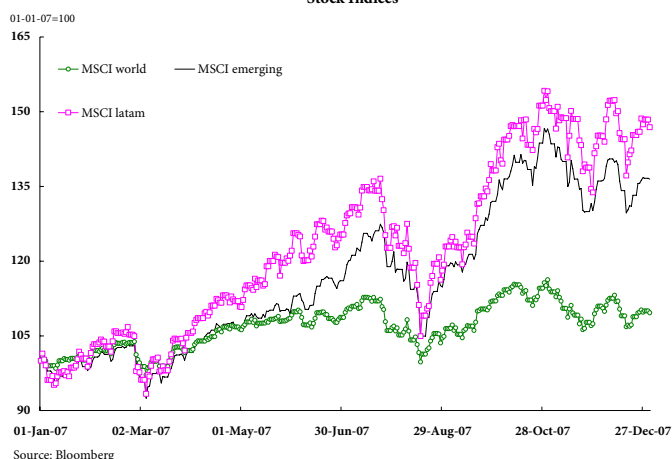
In several European countries in the 90s, there was a migration to structures of integrated monitoring. In particular, the UK is an extreme case of integration of regulation and financial supervision in a single entity, where all regulators of financial services come together. In fact, some countries migrated towards integrated organizations as a response to financial crisis of some magnitude (Korea), while others have only partial integration structures, such as Malaysia. Moreover, in Latin America there are various degrees of integration, going from completely specialized platforms (Argentina and Brazil), countries with partial integration (Chile), to particular cases of complete integration (Colombia).

The increased need to improve the mechanisms of coordination arises primarily from inefficiencies generated by the traditional pattern of regulatory and supervisory expertise. Some of these inefficiencies were evident in the sub-prime crisis of US and Europe, which developed because of the difficulty in completely identifying the risks taken by financial institutions.

Currently, and as lessons learned from the financial crisis, there is a need for the intervention of the CB in the development of financial systems, particularly to mitigate market failure. At the same time, it is noticeable the importance of coordinated monitoring structures to address the continuous financial innovation and the creation of financial conglomerates. Lastly, the first steps to follow as a result of the US crisis in 2007 are beginning to be outlined, with increased emphasis on coordinated and cross-border supervisory structures, strengthening of banking risks management policies, greater transparency in operations over the counter and better accounting practices.

slowdown, even with some probability of a recession. Meanwhile, the economies of the euro zone and Japan will also weaken in 2008, while they are expected to grow 1.7% and 1.5%, respectively, after increasing 2.6% and 2.1% in 2007.

Chart I.4
Stock Indices

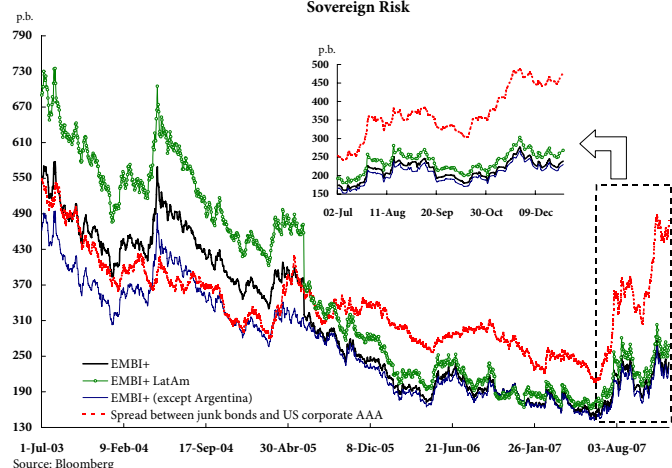


Emerging economies also would record some slowdown in their rate of expansion due to a more unfavorable international situation, even though they continue to grow steadily, showing a good performance in 2008. The implementation of non-cyclical and prudential policies together with the rising prices of raw materials (in the case of countries exporting these products) were reflected in an improvement in the fundamentals of these economies, which are better prepared for an external shock. Thus, emerging Asia will grow 8.1% this year, driven largely by China. In addition, Latin America would grow 4.5% exhibiting rates above 4% for the fifth consecutive year.

Stock market indices of emerging economies were correlated with those of the US, although such contagion effect was smaller than in previous crises

While various financial assets of emerging economies were generally affected by the turbulence observed since mid-2007, prices showed some strength, with a relatively minor impact than in previous crisis. Thus, for example, while stock indices of emerging countries showed significant erosion in August, they recovered strongly in October to the point of moving to set new historical peaks (see Chart I.4). However, stock indices had a volatile behavior, closely following the indices of developed economies (increasing the correlation with the US).

Chart I.5
Sovereign Risk



Additionally, considering the spread of the EMBI + Emerging Markets (EM), while in the 1998 crisis it went from 550 basis points (b.p.) to nearly 1,700 b.p., and in 2002 rose from 600 b.p. to nearly 1,000 b.p.; during the episode of turbulences of July-August 2007 the increase in the spread of the EMBI + EM was only from 170 b.p. to 250 p.b. (See Chart I.5). By the same token, price evolution of emerging countries credit default swaps (CDS) showed an expansion of spreads, although it was more limited than the exhibited for the US high yield, which historically operates as the benchmark for emerging markets (see Chart I.6).

As regards trading volumes, EMTA¹ data showed a 6% contraction in the trading of debt instruments of emerging countries in 2007 (see Chart I.7). However, when

¹ Emerging Market Trading Association

Chart I.6
Credit Default Swaps (Emerging Markets and High Yield)
Spreads in basis points and VIX (expected volatility of S&P index) re-scaled

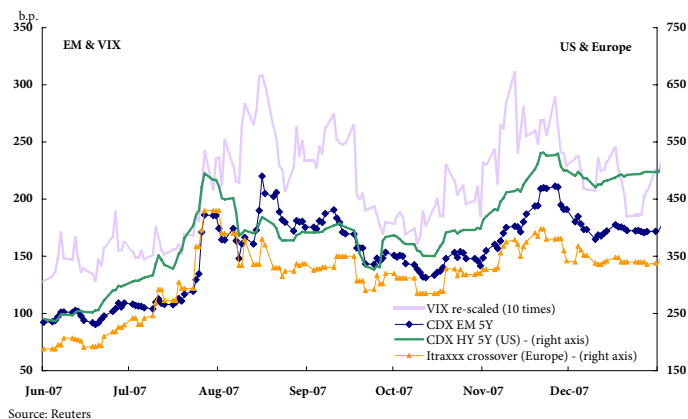


Chart I.7
Emerging Economies Debt Instruments Trading Volume
Quarterly

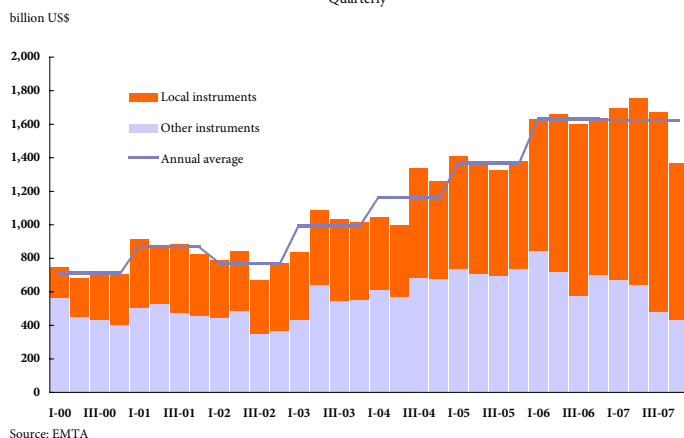
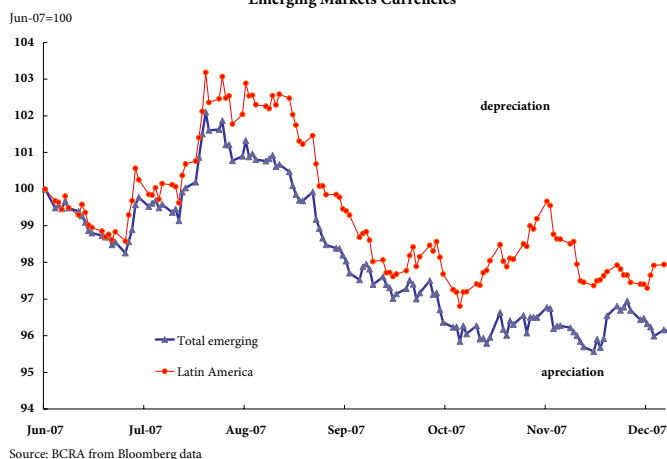


Chart I.8
Emerging Markets Currencies



² Emerging Portfolio Fund Research data

considering only the local instruments (as opposed to total debt under international legislation) there is a bi-annual increment of 8% in the negotiations with regard to the same period of 2006. On the other hand, data from specialized funds in EM assets showed in 2007 a positive flow toward them (both for equity as for fixed income), with an important increment regarding 2006 in the case of equity funds and good *performance* of fixed income funds in local currency². Although in the periods of turbulence there were substantial outflows of funds, they recovered in a few weeks.

Together with the price behavior of various emerging countries asset classes, currencies showed some volatility in the second half of 2007. However, after the sharp decline of July-August (see Chart I.8), during which there was some pressure towards unwinding carry trade positions, emerging countries' currencies resumed its appreciation trend. This was evident in individual cases in the region, such as the Brazilian real.

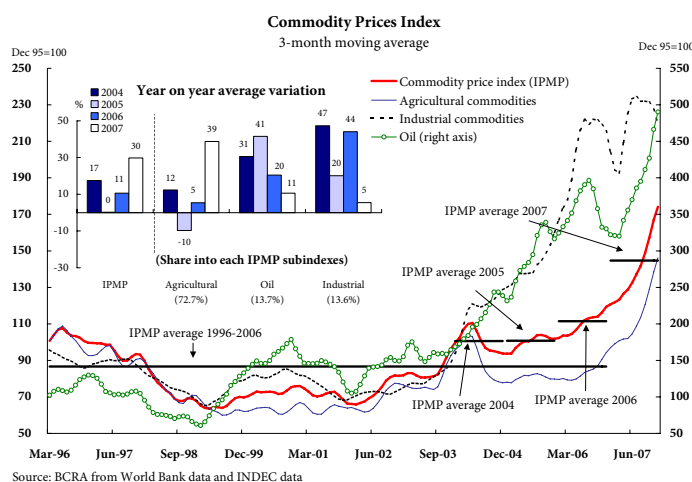
The adverse conditions in international financial markets, coupled with lower funding needs (in many situations already covered in the case of the sovereigns) caused that the debt emissions of countries and emergent companies were not notorious during the second half of 2007, showing postponements and cancellations of scheduled placements.

Despite these developments, given the persistence of increased volatility in international financial markets and the expected slowdown in the major economies, with its consequent impact on the overall economic performance, further downward revisions in the pace of growth of emerging economies it is not ruled out, especially for those who have strong commercial and financial ties with the US. The latter, in turn, would impact the evolution of the assets of these countries. Indeed, at the beginning of 2008 there was a new round of emerging economies assets price deterioration; while fears intensified about a possible recession in the US and the balance sheet season restarted (with new information about the deteriorating balance sheets of financial institutions).

In 2007, the rise in commodities resulted in a higher inflation worldwide. While inflation risks persist, the lowest economic growth expected for 2008 could slow the pace of price growth

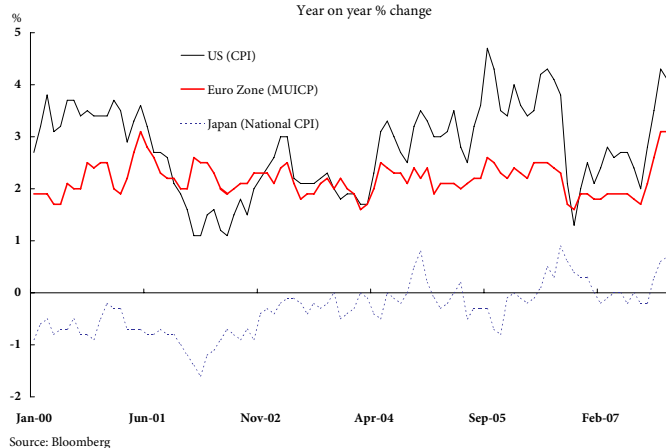
Raw material prices ended the year showing increases, in particular showing acceleration in the second half of 2007. Thus, the Price Index of Raw Materials (IPMP),

Chart I.9



which tracks the average evolution of prices of the most relevant basic commodities in Argentine exports, was almost 30% above the average of 2006 and 67% above the average of 1996-2006 during last year; while 2007 was the year with the largest price increase since the beginning of the upward cycle of commodities in 2002. Even, the IPMP showed acceleration in the second half of the year, mainly explained by the rise of the index in the last quarter, which led to an increase close to 48% annually in December. This situation was mainly due to raw materials and crude oil higher prices (see Chart I.9).

Prices of agricultural products exhibited an average annual increase of 39%, mainly because of higher prices of the soy complex and wheat. This trend continues to be explained by the increasing demand for food consumption in emerging countries, and the use of biofuels by developed countries, in a context of limited supply. Moreover, the price of the crude oil showed increments in 2007 (11%), reaching a historical record in the second half of the year, largely driven by supply problems in the main producing areas (weather disadvantages and geopolitical conflicts), while demand remained sustained. Additionally, industrial raw materials prices showed a slight deceleration in the last quarter, though ended the year with a rise of 5.5%. Thus, for the near future, fundamentals continue to support prices, especially in the agricultural raw materials case.

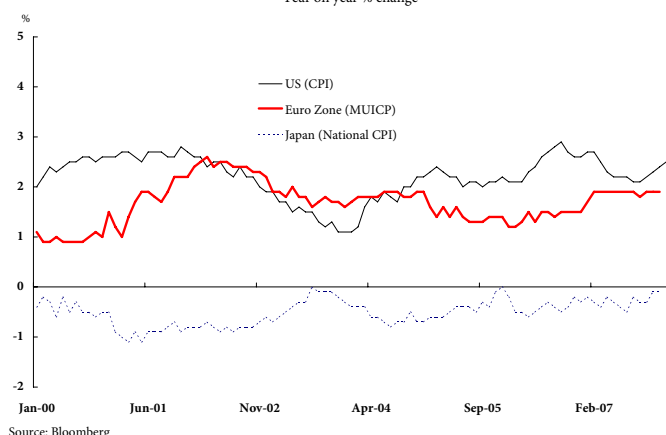
Chart I.10
Consumer Price Index
Year on year % change

The rise in *commodities*, especially the price of the crude oil and food, was reflected in the growth acceleration of the general price index since the second half of 2007. Thus, in 2007 inflation in US was 4.1% and in the euro zone 3.1%, which is higher than the target of the European Central Bank (ECB). Japan also showed a higher rate of increase in prices, reaching an inflation rate of 0.7% in the year, the highest rate in recent history. However, in all economies underlying inflation remained relatively contained. While inflationary pressures persist, mainly originated in the prices of raw materials and the risks associated with second-round effects, it is expected that during 2008 inflation will tend to slow down in a context of global economic activity weakening. In this context, the projected inflation for US is 2.6%, for the euro zone is 2.1% and for Japan is 0.4% (see Chart I.10 and I.11).

Major Central Banks relaxed their monetary policy

Faced with the persistence of turbulences in the international financial markets and the risks associated with higher economic slowdown, some Central Banks of the world's leading economies eased their monetary policies. Thus, in some cases there was a change in the direction

Chart I.11
Consumer Price Index without Food and Energy
Year on year % change



of its reference rate, while others postponed the upward process started months ago. Thus, the US Fed cut the rate of the Fed Funds on several occasions, even dramatically, from 5.25% to 2.25% annually, while further cuts are expected in the coming months (see Chart I.12).

Moreover, both the ECB and the Bank of Japan (BoJ) kept unchanged their reference rate in 4% and 0.5% annually, while in the middle of last year was expected a continuation of the upward cycle. In addition, several agencies carried out monetary policies to increase liquidity in order to provide funds to the short term credit markets.

While there are signs of economic weakening in the euro zone and Japan, the ECB would further be weighing the risks originated from the persistence of inflationary pressures; thus, if the current trend of prices continues, a policy to cut the reference rate in the euro zone is not expected for the next months. Hence, the BoJ continues to express the uncertainty generated by the current international context and its hope for a volatility reduction. Therefore, it is expected that the BoJ keep its reference rate unchanged in the short term.

Since mid-2007, Argentina faces a more unfavorable international context characterized by risks associated with a higher economic slowdown and the continuing turmoil in international financial markets. While so far the effects of these types of risks have not impacted significantly on emerging economies, the possibility of a deepening of the recent events can not be ruled out. Additionally, a greater than expected economic slowdown could affect commodities prices, exacerbating the impact on those exporters countries.

Chart I.12
Benchmark Interest Rates

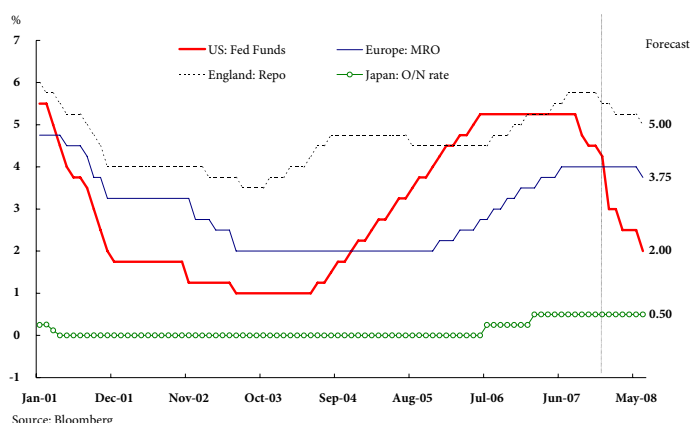
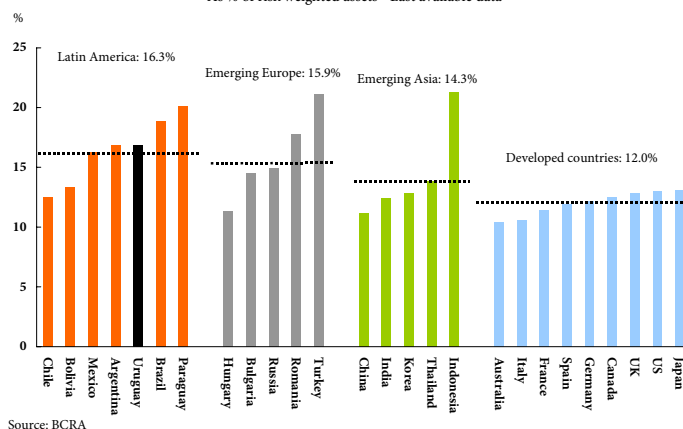


Chart I.13
Capital Compliance
As % of risk weighted assets - Last available data

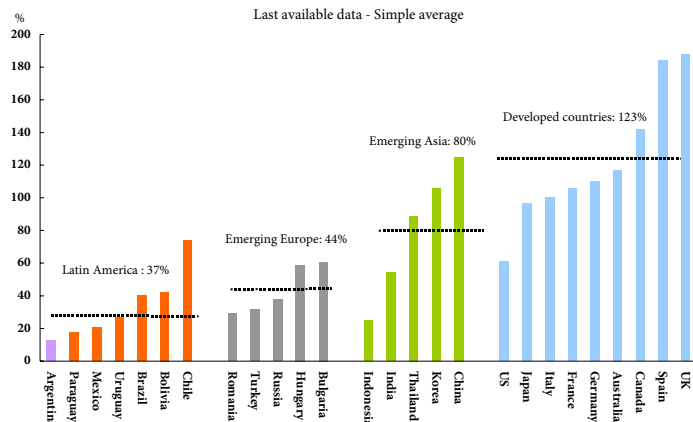


I.2 Latin American Banking Systems

Despite the unfavorable international context, central banks prudential policies are driving the robustness of the Latin American financial systems

The turbulences in the international financial markets that began in the second half of 2007 are driving the Latin American economies to face a more complex scenario, testing the reliability of their financial systems. In this international context of increased volatility, this financial systems show strength and low direct exposure to developed countries credit risk. With the consolidation of revenue sources, banks solvency levels strengthened in the region in recent years, being above international recommendations and financial systems of other regions (see Chart I.13).

Chart I.14
Loans to the Private Sector / GDP
 Last available data - Simple average



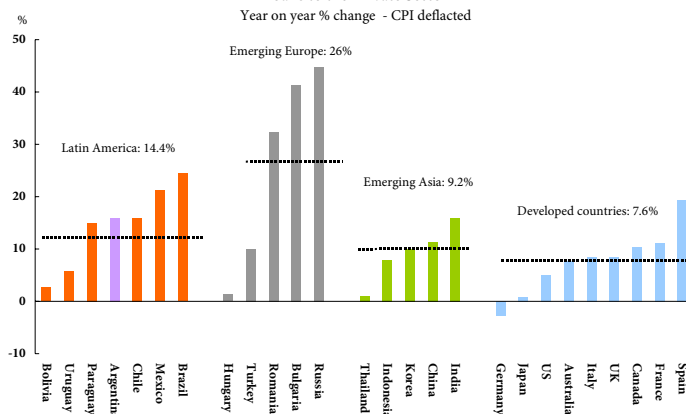
Source: IMF, International Financial Statistics

The improvements exhibited by the Latin American financial systems were linked to the expansion of financial intermediation with the private sector. The credit increase in the private sector was financed mainly with the collection of deposits from the private sector. However, on average, in some regions with more developed capital markets like emerging Europe and Asia, banks are funded through capital markets thus increasing the provision and timing of loans to the private sector. This is one of the remaining challenges of the Latin American financial sectors for the medium term.

In most Latin American cases, credit to the private sector still has a reduced share in the economies when compared with other regions (see Chart I.14). However, despite the wide margin for the deepening of private lending in Latin America, the growth rate is lower than that seen in emerging Europe, which shows a greater reach of bank financing in the economy (see Chart I.15).

Chart I.15

Loans to the Private Sector
 Year on year % change - CPI deflated



Source: IMF, International Financial Statistics

Although growth has been steady, financial systems in Latin America are still vulnerable on some fronts. One of them is associated with the sustained growth of lending for household consumption. As a result of the assessment of the dynamics of consumer credit in recent years, some Latin American countries have begun to carry out stricter monitoring of this type of financing, in many cases suggesting actions to deepen its monitoring and temper its growth in the coming years. In this sense, and with a moderate effect in the short term, the international scene with increasing volatility could encourage an increase in the local interest rates of the countries of the region; thus, worsening the financial position of debtors with a more fragile capacity for payments.

II. Domestic Context

Summary

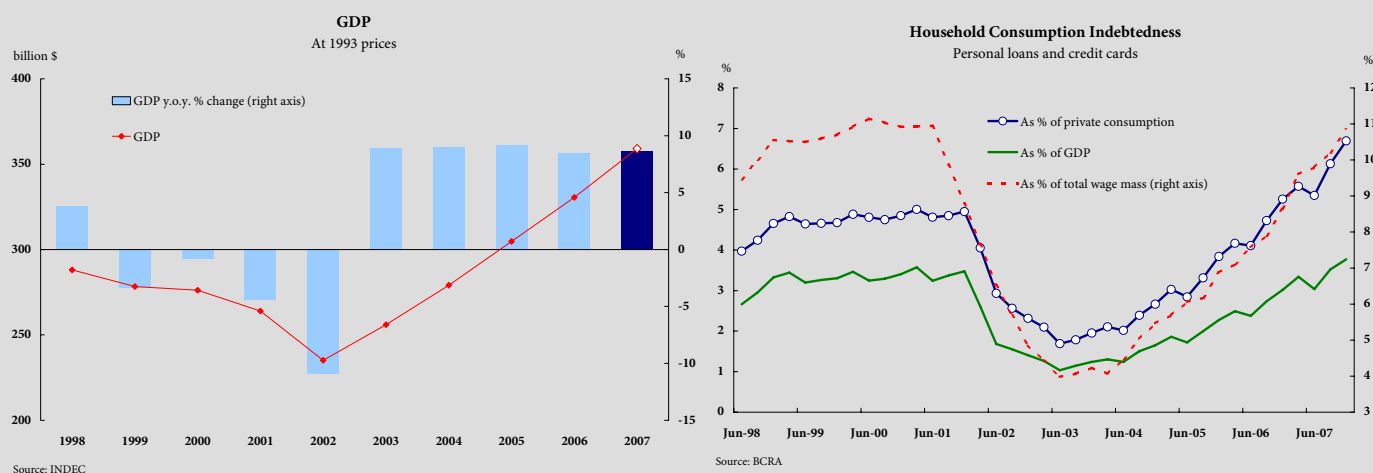
The domestic macroeconomic context again provided suitable conditions for the development of the financial system. At the end of 2007 the economy continued to grow at a high rate, at a time when international financial conditions were deteriorating as a result of the sub-prime mortgage crisis in the US. GDP growth totaled 9% year-on-year (y.o.y.) in the second half of 2007, taking average growth for the year to 8.7%. At the end of the year, private sector consumption continued to drive the rise in economic activity, at the same time as investment was running at a level in excess of 24% of GDP, performances that led to improvements in employment and social variables. The limited impact of international market financial turbulence on the local macroeconomic scene was founded on the prudential anti-cyclical policies implemented by the Central Bank on the monetary and financial front, combined with sound fundamentals in the case of fiscal and external accounts.

Within the framework of rising fiscal revenue, with a primary fiscal surplus and lower levels of indebtedness in terms of GDP, the public sector continues to show sound payment capacity. In 2007 there was a significant increase in public sector spending, a situation that is expected to be tempered in the coming year. The private sector also records an adequate economic and financial situation, encouraged by good income prospects for

households and a positive business outlook for companies, combined with low levels of indebtedness and interest rates that are reflected in a moderate debt burden.

In the second part of 2007 the industrial and service growth rate accelerated, with a sustained performance from the farm sector, in line with the development seen in recent periods (when there were record prices for exportable commodities). Lower relative indebtedness in the case of most productive sectors, in particular that taken on by means of foreign credit lines, exposing borrowers to exchange rate fluctuations, was reflected in the improved financial situation shown by companies, which has enabled them to continue to increase their demand for financing.

Household consumption has continued to maintain its dynamism, mainly as a result of lower levels of unemployment, improvements in the quality of employment, a recovery in wage levels, and consumer lending. Although still at a low level, the increase in indebtedness in this sector remains in excess of growth in income, a development that continues to be driven in particular by consumer lending lines. As a result, the performance of consumer payment capacity indicators will be an element to be monitored in coming periods.



II.1. Domestic conditions

Limited impact of international financial turmoil on economic fundamental variables

Despite the deterioration recorded by the international financial situation in the second half of 2007, locally the economy maintained its high growth rate. The increase in GDP rose to 9% year-on-year (y.o.y.) in the second half of 2007 and to 8.7% on average for the year (see Chart II.1), a performance that was accompanied by improvements in employment and social variables. The limited impact of international market financial turbulence on the local economy was due mainly to the prudential and anti-cyclical policies implemented by the Central Bank combined with sound performance by fiscal and external accounts.

One of the factors explaining domestic economic performance is the improvement observed in external accounts, with the recording in 2007 of the sixth consecutive year of current account surplus. The current account will have reached close to 3% of GDP in 2007, mainly on the strength of the trade surplus in goods. The trade balance ended the year with a surplus of almost US\$11.2 billion (see Chart II.2) (4.3% of GDP), remaining at a high level in historical terms.

In this context, sales abroad posted an increase of 20% y.o.y., standing at approximately US\$55.9 billion, more than double pre-crisis levels. Prices of export goods continued to rise sharply in 2007, unaffected by the weakening of the international situation. Imports, for their part, rose 31% y.o.y., reaching record levels of over US\$44.5 billion.

At the same time, after the capital inflow seen in the first half of 2007, the capital and financial account became negative in the second half of the year (see Chart II.3), affected by the volatility observed on international financial markets, although GDP continued to grow, unlike the situation in the period following the Tequila crisis. This phenomenon was reflected in the net outflow of currency from the financial account for the private non-financial sector, as foreign direct investment (FDI) recorded a slight year-on-year increase in the period.

Household consumption continues to drive economic growth, while investment is expected to have exceeded 24% of GDP in the second part of the year

Economic activity has continued to be mainly driven by increased household and company spending (see Chart II.4), as has been the case in recent periods. Private sec-

Chart II.1
GDP
At 1993 prices

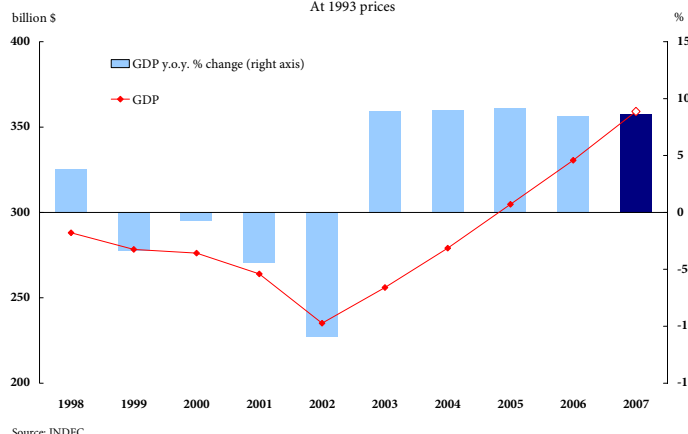


Chart II.2
Exports, Imports and Trade Balance
12-month accumulated

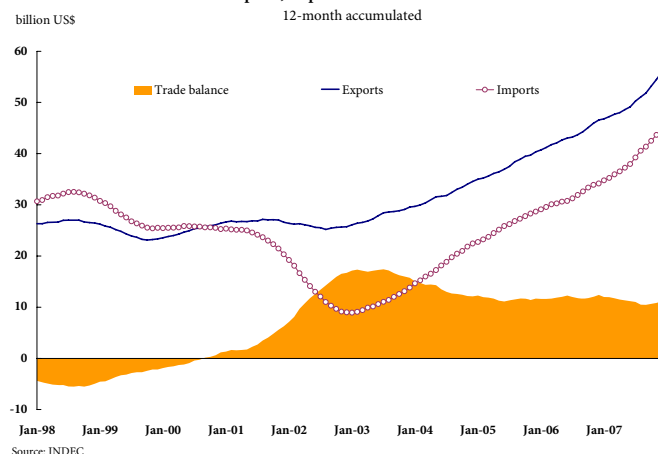


Chart II.3
Capital Flows and GDP

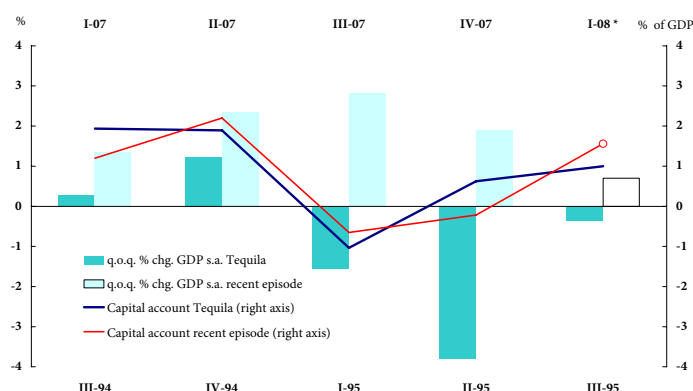
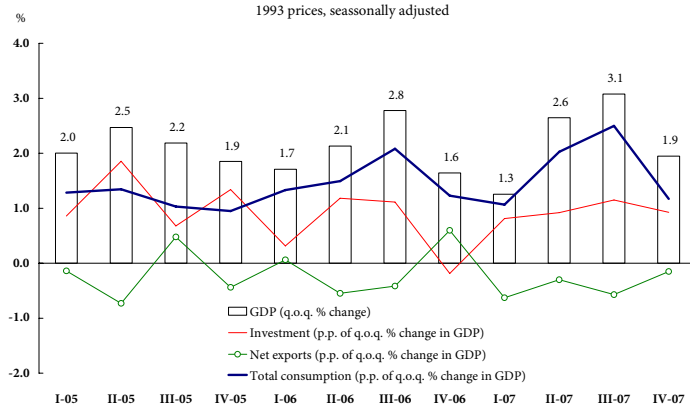
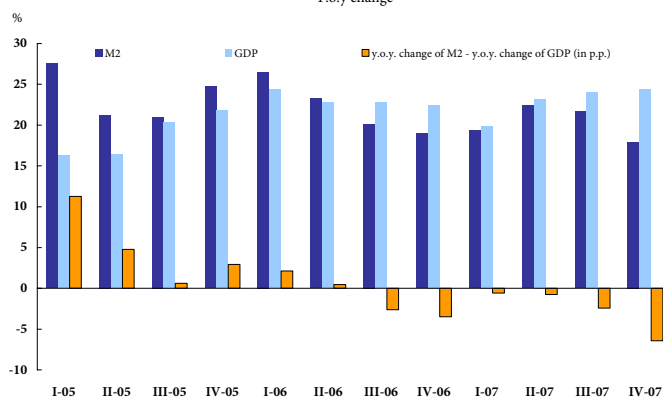


Chart II.4
GDP Growth and Contribution by Expenditure Component
1993 prices, seasonally adjusted



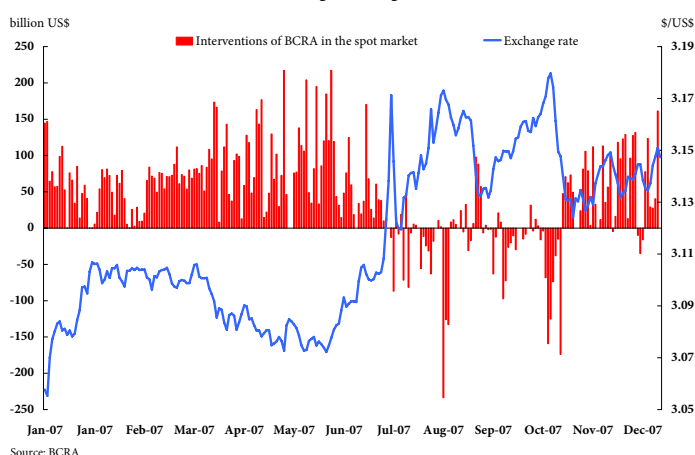
Source: INDEC

Chart II.5
Means of Payment and GDP
Y.o.y. change



Source: BCRA and INDEC

Chart II.6
Foreign Exchange Market



Source: BCRA

tor consumption increased at above the rate of economic growth, reflecting rising wage-earner purchasing power, higher employment levels and an increase in lending to households. In addition, the reduction in the tax burden from the increase in the income-tax allowance and higher pensions have also encouraged this development.

In addition, companies have continued to increase investment in the second half of 2007, particularly in the form of the purchase of durable production equipment. Growth in domestic demand and export sales opportunities have encouraged companies to continue to increase their capital stock, in a situation in which there is a high use of installed capacity combined with a drop in the relative cost of capital. As a result, the dynamism of gross domestic fixed investment (IBIF) has persisted, rising to over 24%³ of GDP in the second half of 2007.

Consistent monetary policy, combined with the accumulation of international reserves, served to discourage short-term speculative movements

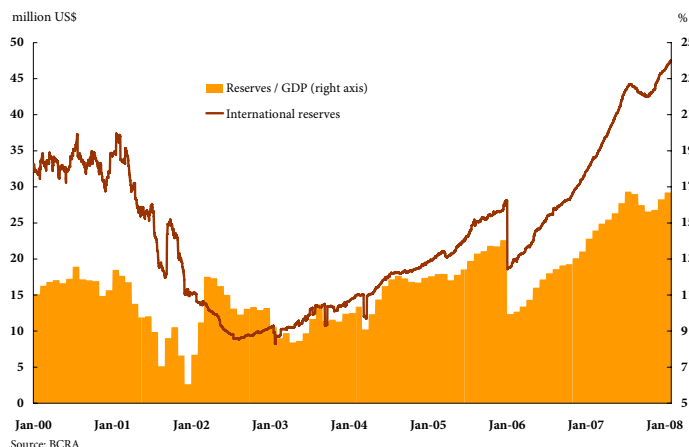
Over the course of 2007 the Central Bank has continued to exert strict control on the development of monetary aggregates, a situation that was reflected in a deceleration in the growth of transactional currency (M2). In December 2007 the rate of change in this indicator was 17.9% y.o.y. (1.1 p.p. below that in the same month of the previous year) (see Chart II.5), and has remained below the level of GDP growth, as in the previous three quarters. In December the average M2 balance stood at almost \$145.7 billion. As a result, the Central Bank completed 18 consecutive quarters of compliance with the targets laid down in its monetary program (PM).

From July to October, repercussions from the turbulence on international financial markets affected the exchange rate (see Chart II.6) and domestic interest rates. In this context, the Central Bank consecutively attacked on two fronts, leading intervention on the exchange market to prevent excessive exchange rate volatility from affecting expectations, at the same time as injecting liquidity into the market to avoid sharp interest rate movements from affecting lending to the private sector.

In the case of the former, direct intervention took place on spot and futures markets in coordination with the official banking sector. This demonstrated the effectiveness of the accumulation of reserves as a prudential instrument, as it allowed the Central Bank to successfully confront exchange rate volatility. As from November, the Central Bank returned to its strategy for reserve ac-

³ At 1993 prices

Chart II.7
International Reserves and GDP



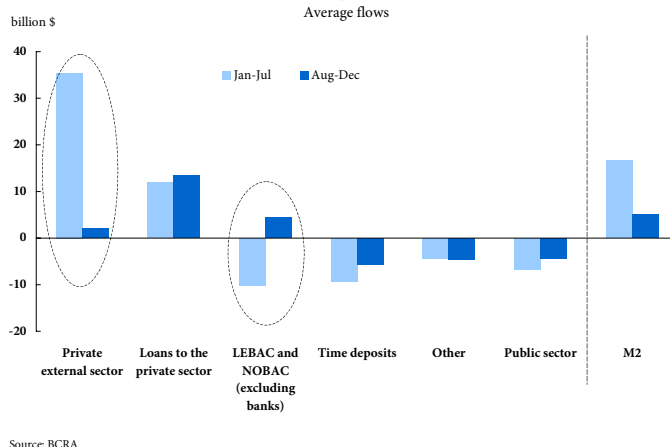
cumulation as a precautionary measure, taking reserves to a level of US\$46.1 billion at the end of 2007 (see Chart II.7). The increase in these external assets took place without neglecting the equilibrium of the money market or the quasi-fiscal surplus.

In addition LEBAC and NOBAC bills and notes were redeemed both on the secondary market and by means of repurchase tenders (see Chart II.8), thus strengthening the roles of these securities as a liquidity reserve for use in time of market shocks. With the aim of avoiding distortions derived from activity by foreign investors who take positions in these securities with a short-term horizon, it was resolved to issue domestic LEBAC and NOBAC that could only be traded locally by resident investors.

Changes have also been made to minimum cash regulations, including two periods during which the requirement was calculated on a two-month basis (July-August and October-November, in the latter case without the possibility of any “carry-over” of excess compliance), which were combined with the December-February compliance period, at the same time as the daily minimum cash requirement was lowered during July and August (from 50% to 40% of the previous month’s requirement).

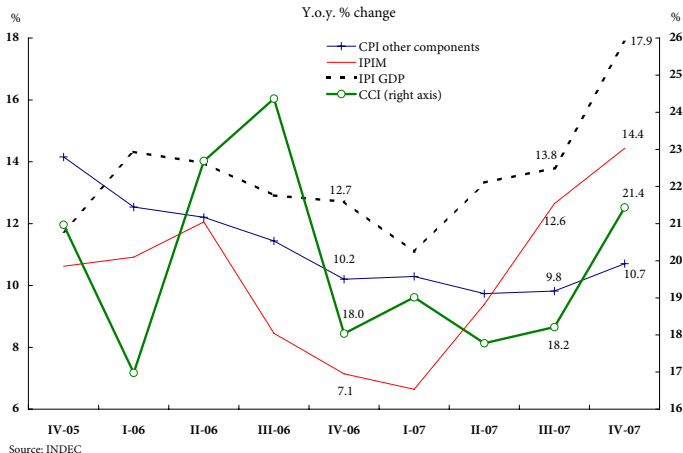
All these measures contributed to stabilizing monetary and exchange markets, demonstrating that the Central Bank’s international reserves, together with a consistent monetary policy, were sufficient to discourage speculative movements that might have deepened the domestic impact of international uncertainty.

Chart II.8
M2 Explanatory Factors in 2007
Average flows



Gap between the CPI GBA and the national index narrows

Chart II.9
Price Indexes
Y.o.y. % change



The consumer price index for Greater Buenos Aires (CPI GBA) kept its rate of change relatively stable at around 8.5% y.o.y., while the Others sub-index (the INDEC’s proxy for core inflation) recorded a declining trend towards the end of the year, rising by 10.7% year-on-year in the fourth quarter of 2007 (see Chart II.9). After rising to 11% y.o.y. in September, reflecting higher price growth in urban agglomerates in the interior of the country, the nationwide CPI slowed its rate of increase to 10% y.o.y. in December, this time in response to the slowing of the rate of increase in the interior. The dispersion in consumer prices between the GBA region and that shown by indexes for the rest of the country was seen mainly in the performance by food prices, and to a lesser extent, by certain services.

Table II.1
Monetary Program 2008

Targets - Billion \$		Mar-08	Jun-08	Sep-08	Dec-08
Total M2	Lower range	146.3	153.9	157.1	165.1
	Base	150.7	159.2	163.2	172.4
	Upper range	155.2	164.6	169.4	179.8
Private M2	Lower range				155.6
	Base				161.2
	Upper range				166.9

While developments in the US economy continue to represent the main risk factor, the economic outlook for 2008 still presents a favorable scenario for financial growth

In 2008 it is expected that Argentina will again record economic growth, with external and fiscal account surpluses. It will probably have to face a more hostile international context, given the persistence of turbulence on financial markets and the risks of a possible weakening of the US economy. This situation will present new challenges to domestic monetary and financial policies. Nevertheless, exportable commodity prices will remain high, in a scenario of sustained growth by emerging economies, helping to partially compensate for any possible downturn in developed nations.

In this context, it should be noted that the 2007 Monetary Program (PM) set the guidelines for prudent monetary policy, used as a reference for the 2008 PM (see Table II.1). The external surplus, together with the Central Bank's reserve accumulation policy, will contribute to consolidating the stability of the local financial and monetary system.

II.2 Financial system debtors

Households and companies account for an increasing share of bank assets, and this trend is expected to continue over the course of 2008

During 2007 the financial system continued to expand its lending to companies and households, in compensation reducing its exposure to the public sector (see Chart II.10). The economic outlook for the private sector for 2008, combined with the availability of resources in banks, will ensure such lending will continue to increase, in a context of limited credit risk.

II.2.1 Public sector

Sound public sector payment capacity is based on the performance of fiscal accounts⁴

In 2007 the national non-financial public sector (SPNF) posted a primary surplus of \$25.7 billion, equivalent to approximately 3.2% of GDP (see Chart II.11). Consequently, this result exceeded the 3% target laid down in the Budget, dropping close to 0.3 percentage points (p.p.) compared with 2006. Extraordinary income arising from the social security reform contributed to ensuring the budget guideline could be met. In 2007 there

Chart II.10
Financial System Asset Portfolio
As % netted assets - December 2007

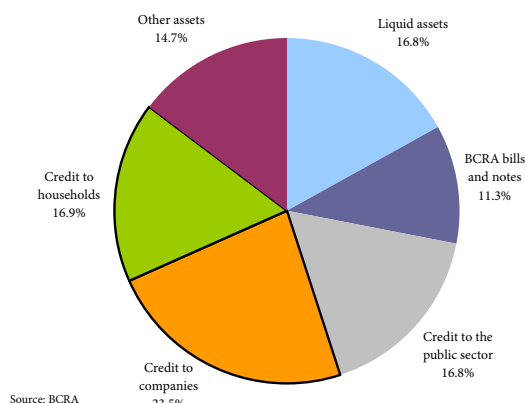
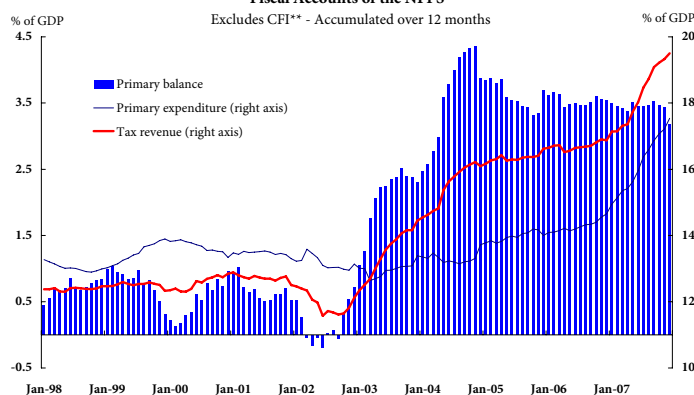


Chart II.11

Fiscal Accounts of the NFPS*

Excludes CFI** - Accumulated over 12 months



* Non-financial national public sector, cash basis.

** Federal tax revenue sharing and special laws.

Source: BCRA from Treasury Secretariat and INDEC data.

⁴ For a more detailed analysis of Public Sector revenue and expenditure, see the Inflation Reports for the fourth quarter of 2007 and the first quarter of 2008.

Chart II.12
Share in National Tax Revenue

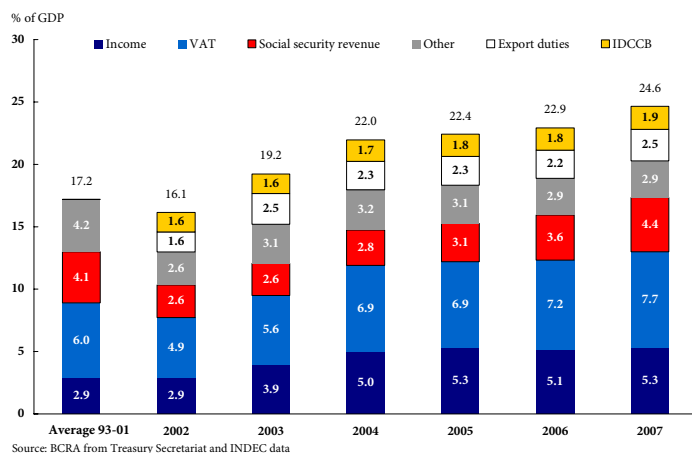


Chart II.13
NFPS* Primary Expenditure Share

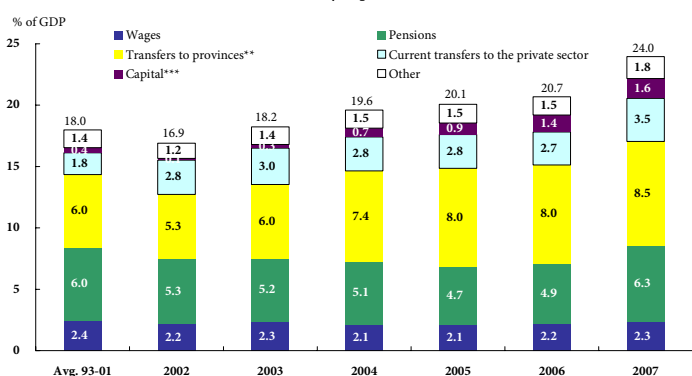


Table II.2
Bonds Issues in 2006 and 2007

Bond	Auction date	Total Issue ¹	Issue Price ²	Yield ²	US Treasury Bond Spread ⁴
2006					
In dollar					
BODEN 2012*	19-Jan-06	312	80.0	8.5	418
BODEN 2012*	27-Jan-06	308	81.1	8.3	381
BODEN 2012*	14-Feb-06	308	81.1	7.8	311
BODEN 2012*	21-Feb-06	307	81.4	7.6	298
BONAR V	22-Mar-06	500	94.5	8.4	367
BONAR V	03-May-06	500	96.4	8.1	338
BODEN 2012*	09-May-06	239	83.7	7.5	253
BODEN 2012*	07-Jun-06	243	82.5	8.3	334
BODEN 2012*	27-Jun-06	245	81.6	9.1	393
BODEN 2012*	17-Jul-06	482	83.0	8.6	348
BONAR V	26-Jul-06	500	97.3	8.3	333
BONAR VII	07-Sep-06	500	92.7	8.4	364
BODEN 2012*	31-Oct-06	420	71.5	7.4	272
BONAR VII	30-Nov-06	500	96.3	8.0	356
Total in dollar 2006		5,365			
2007					
In dollar					
BONAR VII	25-Jan-07	500	99.0	7.7	287
BODEN 2015*	13-Feb-07	779	96.3	8.0	320
BONAR VII	15-Feb-07	500	99.5	7.7	303
BONAR X	12-Apr-07	750	90.3	8.5	372
BONAR X	10-May-07	750	90.9	8.4	378
BODEN 2015*	06-Aug-07	605	82.7	10.7	608
BODEN 2015*	13-Nov-07	604	82.8	10.4	637
BONAR X	14-Nov-07	574	80.0	10.5	627
DISCOUNT**	19-Nov-07	542	111.9	8.9	460
BODEN 2015**	31-Dec-07	503	82.4	10.7	690
Total in dollar 2007		6,106			
In Pesos					
BONAR ARG \$ V	07-Jun-07	1,500	95.6	11.7	-
Total in pesos 2007		1,500			

(1) Nominal value, in million, issue currency; (2) In %; (3) In basis points
(*) Direct placements to the República Bolivariana de Venezuela; (**) Direct placement to the ANSeS.
Source: Secretariat of Finance

was a strong nominal increase in national tax revenue (33% y.o.y.), which totaled \$199.8 billion, equivalent to approximately 24.6% of GDP (see Chart II.12). Primary spending increased at rates in excess of the rate of revenue growth, reaching 24% of GDP (see Chart II.13).

Interest payments rose \$4.9 billion in 2007 (42%), mainly from higher servicing payments on GDP-linked coupons, higher rates payable on outstanding debt⁵ and the restructuring of the debt owed to Spain. Consequently, the SPNF financial result totaled 1.1% of GDP, below the 1.8% recorded in 2006.

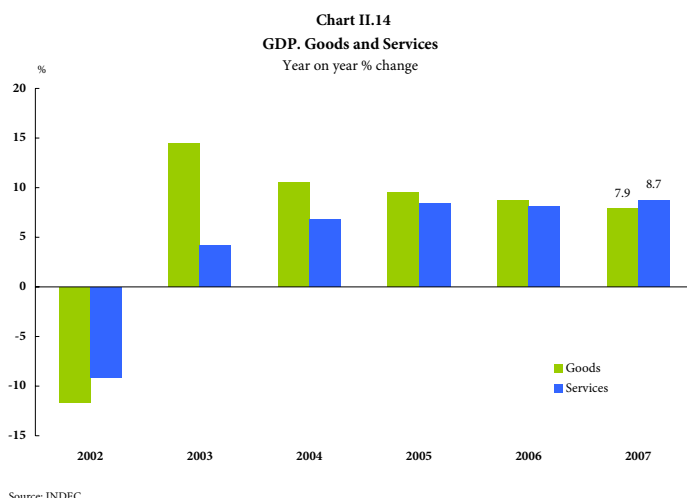
During 2007 the Government issued bonds for a par value of US\$6.6 billion, 93% of which were placed in foreign currency and the rest in pesos (BONAR \$ V) (see Table II.2). Issues made on capital markets during the second half of 2007 totaled a par value of US\$2.8 billion, 80% having been placed directly with Venezuela and the National Social Security Administration (ANSeS). In addition, during the second half of 2007 the IDB disbursed funds to the National Treasury (TN) for US\$350 million. Net financing by means of intra-sector bills totaled \$2.1 billion, of which \$1.8 billion corresponded to new placements with the ANSeS. As a result, when the financial surplus and the net use of temporary advances from the Central Bank (AT) for \$3 billion were included, TN borrowing requirements during 2007 were fully met, as well as part of the financing needs for 2008. On this basis, the TN is not expected to face any major difficulty in financing its obligations during 2008.

One element requiring monitoring will be the performance of public accounts in the provinces and the magnitude of sub-national borrowing requirements, despite the fact that part of these needs could be met by the TN.

Lower weighting of debt in GDP, with a steady share in local currency liabilities

The National Public Debt (DPN) totaled US\$144.7 billion in 2007, an increase of 5.9% for the year. The nominal growth by GDP meant that the ratio between the stock of DPN and GDP continued to decline to a level of 56.1%, 7.9 p.p. lower than at the end of 2006. Composition by currency remained unchanged, despite the low share of new debt issues in pesos. This behavior is explained by the performance by the CER index, as 39% of the DPN is restated on the basis of this coefficient.

⁵ It should be noted that the debt instruments placed in 2007 (mainly BONAR and BODEN 2015) pay interest at a higher rate than the main debt paper that was being repaid (basically BODEN 2012, BODEN 2011, BODEN 2008, National Secured Loans and Guaranteed Bonds). To a lesser extent, renewals of Bills placed within the public sector also had an impact in this regard.



The favorable outlook for revenue and expenditure will ensure a sound public sector payment capacity for 2008

In 2008 it is expected that tax revenue will continue to record high growth rates, given the full impact of increases at the end of 2007 in export duties within a context of a steady increase in exports. In addition, social security receipts are expected to evolve favorably from the voluntary transfer of contributions from the privately-funded pension system. Furthermore, as foreseen in the 2008 Budget, the growth in social security benefits, transfers to the private sector and capital expenditure will be below that recorded in 2007. As a result, rate of the increase in primary expenditure in 2008 is expected to slow, meeting the Budget targets for primary and financial surpluses (3.15% and 0.93% of GDP, respectively).

II.2.2 Corporate sector

Sound economic performance by companies, combined with moderate levels of indebtedness and the prospects for 2008 will strengthen the economic and financial position of the sector

The pace of economic expansion accelerated in the second half of 2007, raising the growth rate to close to 9% y.o.y. by the end of 2007. Services led the increase in GDP for the first time during the current upward cycle, encouraged by the growth in household consumption resulting from higher employment, wages and credit.

Goods manufacturing also increased during 2007, although at a somewhat slower rate than in the previous year (see Chart II.14). The agricultural sector achieved a new output record during the 2006/07 season, following increased yields and an expansion of the agricultural frontier in the context of a steady increase in international prices. In addition, the growth rate for both industry and the construction sector accelerated in the last half of last year, although by the end of 2007 their average growth rate was lower than in the previous year.

Within this framework, over the course of 2007 industry and services were responsible for an increase in bank lending to companies. These two sectors accounted for almost 55% of bank lending to businesses (see Chart II.15), driven by the good prospects for their activity in coming periods. In addition, during the year there was notable dynamism in lending to the retail and wholesale trade, although it still accounts for a low share of lending to companies (13.8%).

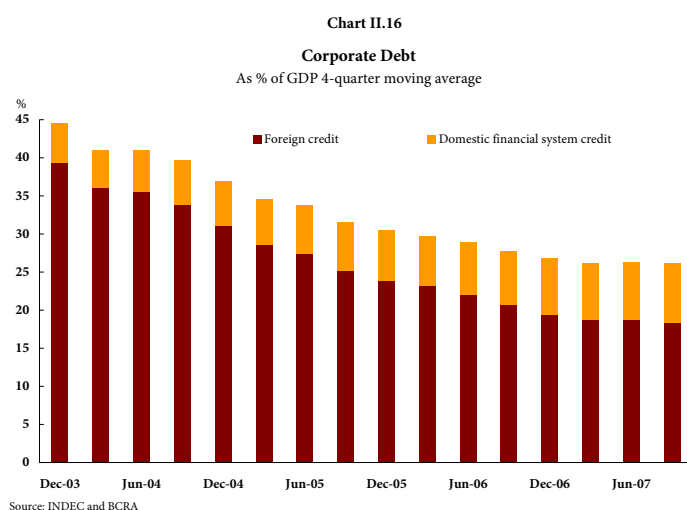
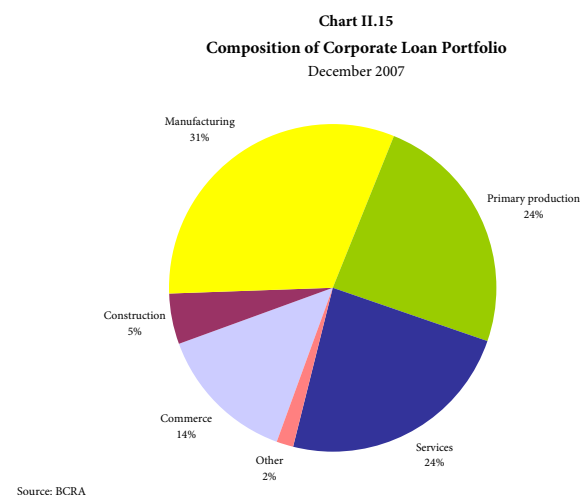
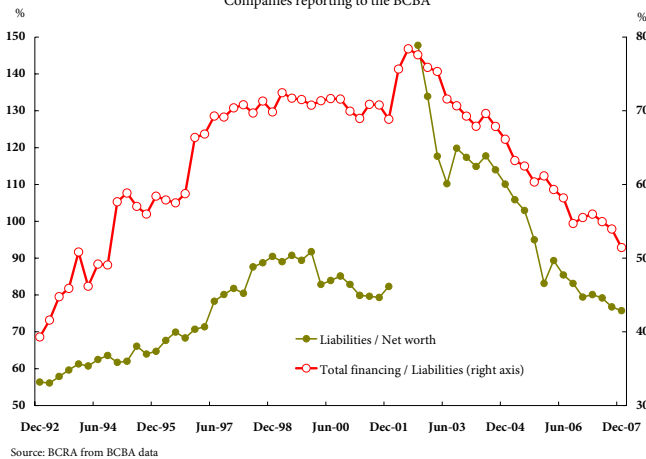


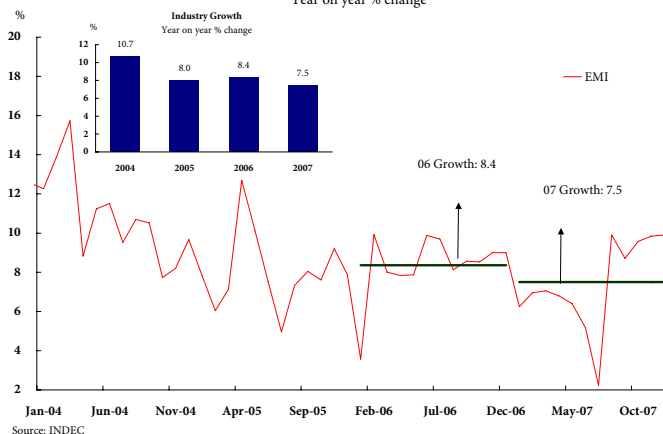
Chart II.17
Corporate Debt Burden
Companies reporting to the BCBA



Total company indebtedness in term of sectoral GDP continued to decline in 2007 (to almost 26%). Companies are steadily making increased use of domestic funds, while at the same time reducing their borrowing abroad (see Chart II.16). As a result, while in September 2007 almost one-third of all financing was local in nature (and was mainly in domestic currency), this total was barely 12% in 2003, so that exposure of the sector to fluctuations in the exchange rate has gradually fallen.

The financial situation of large corporations, particularly those listed on the stock exchange and which have access to capital markets, improved by the end of 2007 (see Chart II.17). This segment of the corporate sector showed lower leverage levels and a smaller share of bank lending, a development that continues to be matched by the good business outlook for the sector.

Chart II.18
Industry Evolution
Year on year % change



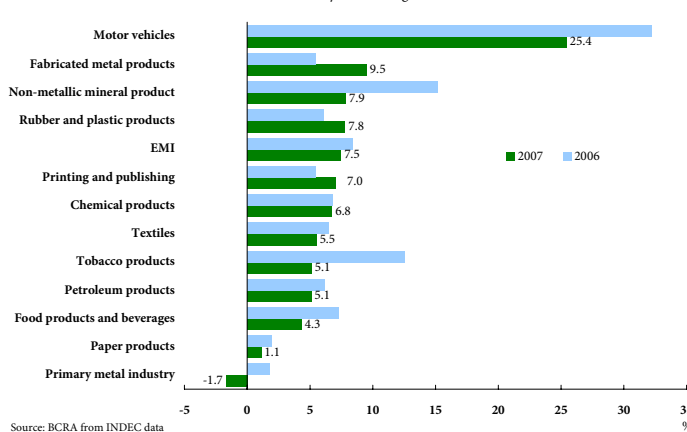
In 2008 it is expected that this expansion phase will continue, and that there will be a further increase in GDP. This would imply the consolidation of a period of over 6 years of uninterrupted growth, in which the production of goods and services will have accumulated a rise in excess of 60%, with an increased use of domestic financing to the detriment of foreign borrowing, a situation that is gradually improving the economic and financial standing of companies by lowering their exposure to fluctuations in the peso-dollar exchange rate.

II.2.2.1 Manufacturing

Manufacturing growth in 2007 and the prospects for the coming year mean that the sector evidences sound payment capacity

Manufacturing output increased its growth rate in the second half of 2007, driven by growing internal and external demand, added to which there was stock accumulation by certain sectors. As a result, by the end of the year manufacturing industry growth totaled 7.5% y.o.y. (see Chart II.18).

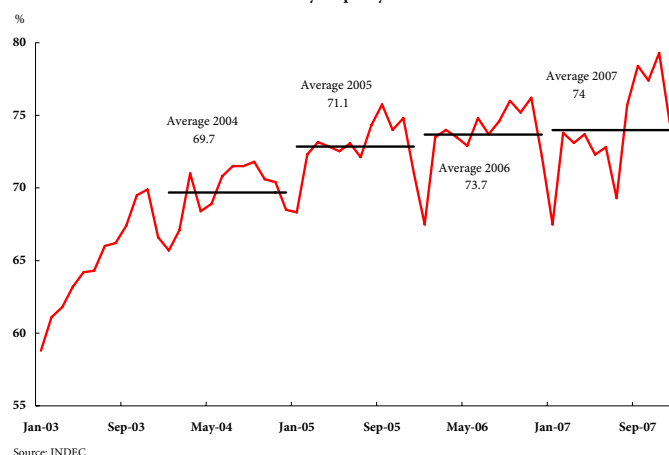
Chart II.19
EMI. Sectorial Evolution
Year on year % change



This dynamism in manufacturing spread across almost all branches of the activity. Nevertheless, in the second half vehicle manufacturing continued to lead growth, contributing over 40% of the increase in total output (see Chart II.19). The favorable performance by manufacturing industry was matched by a capacity utilization factor (UCI) similar to that seen in 2005 and 2006 (see Chart II.20). UCI averaged 74% during the year, although displaying considerable volatility.

Stability in capacity utilization at a time of increased production during 2007 was a sign that investment had

Chart II.20
Industry. Capacity Utilization



been made to expand capacity, and that there had been both an increase in the number of workers and their productivity. The main investments were made in the vehicle industry, the chemicals sector, and in basic metals industries, where expansion will begin to be reflected in 2008.

It is expected that manufacturing industry will record its sixth consecutive year of growth in 2008. This outlook, combined with a greater use of resources provided by the domestic financial system (see Chart II.21), will contribute to an improvement in the payment capacity of companies in the sector. Although dollar indebtedness makes up almost 85% of the total, growth by export manufacturers and the rising share of exports in the output of the sector will help mitigate the exchange rate risk for the sector aggregate.

II.2.2.2 Primary sector

Strong performance by the agricultural sector strengthens its payment capacity

The primary sector posted uneven results in the second half of 2007, with a sound performance by the agricultural sector. The latest harvest set a new all-time record, and the 2007/2008 season has begun with a favorable outlook, with forecasts for a slight improvement on the previous year. Cattle slaughter volumes continued to increase, although at a slower rate than in the first part of the year.

The area to be sown during the current farming season is expected to be in excess of 30.4 million hectares⁶, 4.8% more than in the previous season. As a result, cereal and oilseed production will total around 96 million tons (see Table II.3), 1.4% more than the previous harvest, mainly from soybean and wheat. The expected increase in the harvest is also an indication of the growth in investment recorded by the sector. Capital goods imports by the sector increased 45.6% y.o.y. in the first nine months of 2007, and sales of domestic farm machinery were up 25.8% compared with the same period of 2006.

Beef volume from cattle slaughter recorded lower growth in the second half of 2007, and milk production for processing has continued to run at levels lower than those seen in the previous year. Certain difficulties related to the weather and the profitability of the sector were mainly responsible for restrictions on supply. There was a decline during the year in the number of

Chart II.21
Manufacturing Sector Debt
As % manufacturing sector GDP 4-month moving average

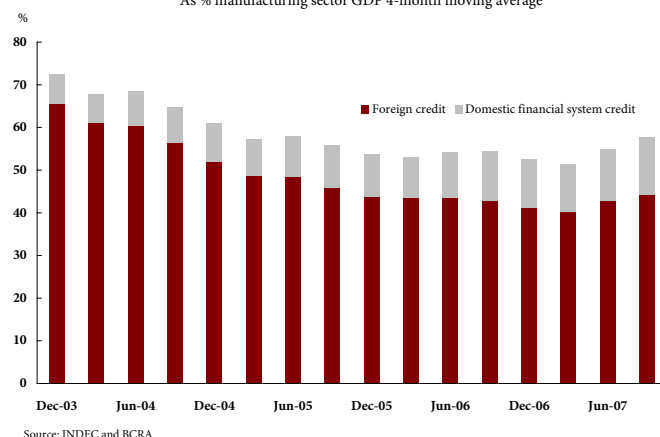


Table II.3
Grain and Oilseeds Production

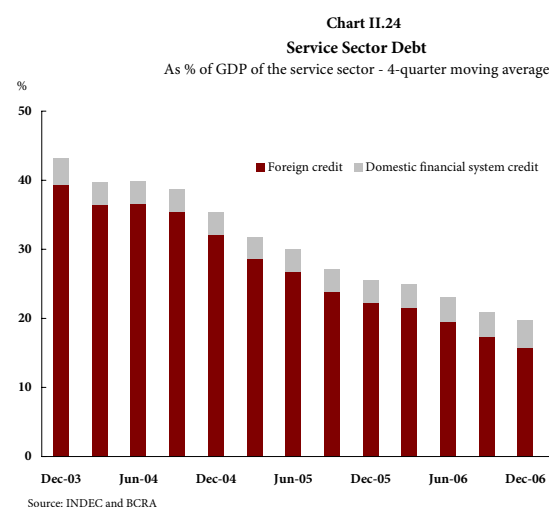
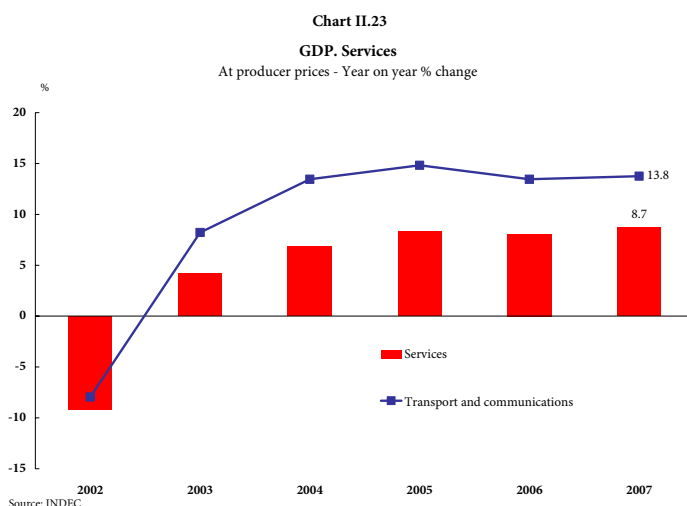
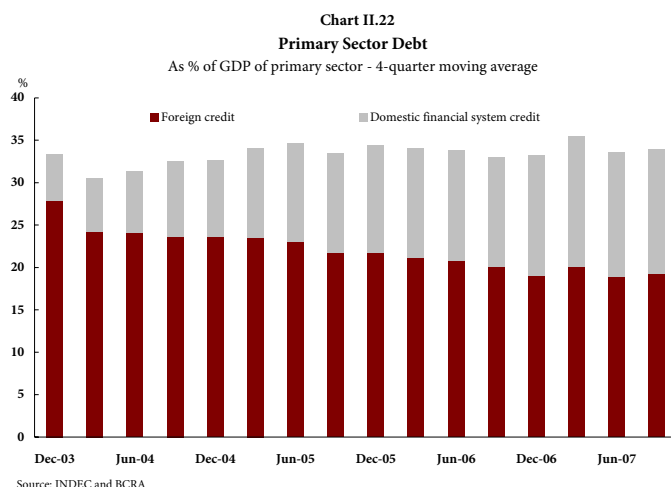
	2006-07		2007-08		Change % 2007-08 / 2006-07	Change tns 2007-08 / 2006-07
	thousand tns	Estructure %	thousand tns	Estructure		
Cereals	42,012	41.2	42,242	44.6	0.5	230
Corn	21,800	18.8	20,500	23.2	-6.0	-1,300
Wheat	14,600	16.4	15,400	15.4	5.5	800
Grain sorghum	3,000	3.0	3,330	3.2	11.0	330
Other	2,612	0.0	3,012		15.3	400
Oilseeds and Oleaginous fruits	52,439	58.3	53,577	54.8	2.2	1,138
Soybean	47,600	52.8	48,200	50.3	1.3	600
Sunflower	3,605	4.9	4,200	3.8	16.5	595
Other	1,234	0.1	1,177	0.1	-4.6	-57
Total	94,451	100.0	95,819	100.0	1.4	1,368

* Shows obtained production record for each crop between 1979/80 and 2005/06 campaign.

Source: BCRA from SAGPyA and USDA data

USDA estimations: rice, corn, wheat, cotton and soybean production.

⁶ According to data provided by the Secretariat for Agriculture, Livestock, Fisheries and Food (SAGPyA)



working dairy farms and in dairy output of close to 4% y.o.y. and 11.7% y.o.y., respectively.

The indebtedness of the primary sector with non-residents continued to show a declining trend (see Chart II.22), although it is still above the level of domestic borrowing. The strong export capacity of the sector, in the context of high commodity prices and the good outlook for production in 2008, mean that the farming sector can show a sound economic and financial situation, with consolidation of its financial profile so that it will be able to count on access to additional credit.

II.2.2.3 Services

Accelerated services growth, combined with its reduced levels of indebtedness, provide a sound economic and financial framework for companies in the sector

Service-providing sectors led economic growth in the second half of 2007. Transport and communications in particular have been growing at an above average rate (see Chart II.23).

With their low level of indebtedness (17% of sector GDP) (see Chart II.24), service sector companies have been replacing external financing with resources provided by the domestic financial system. Although domestic resources only account for 23% of the total, they have increased 14 p.p. in the last 3 years, reducing the exposure of the sector to fluctuations in the peso-dollar exchange rate. The service sector is expected to maintain its upward dynamic in 2008, keeping pace with the growth forecasted for the economy.

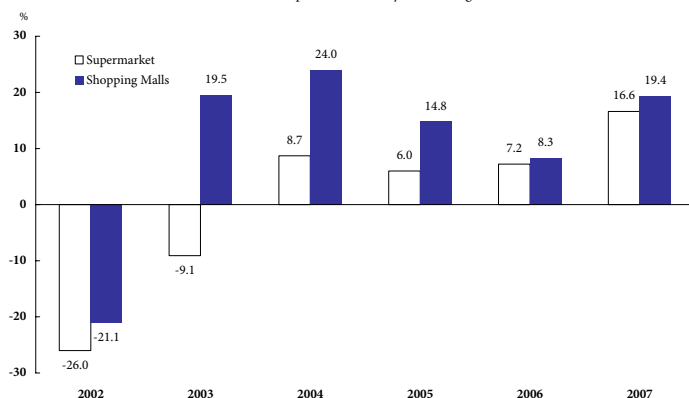
II.2.2.4 Commerce

Growth in commercial activity is reflected in sound payment capacity, allowing for increased borrowing to boost installed capacity

Retail trade continues to evolve favorably, driven by private sector consumption. Sales volumes recorded by supermarkets and shopping malls posted an upward trend, particularly in the case of household appliances and other durable goods. Credit facilities and changing technology have spurred the purchase of such items, which have shown sales growth in excess of 30% y.o.y. in 2007 (see Chart II.25).

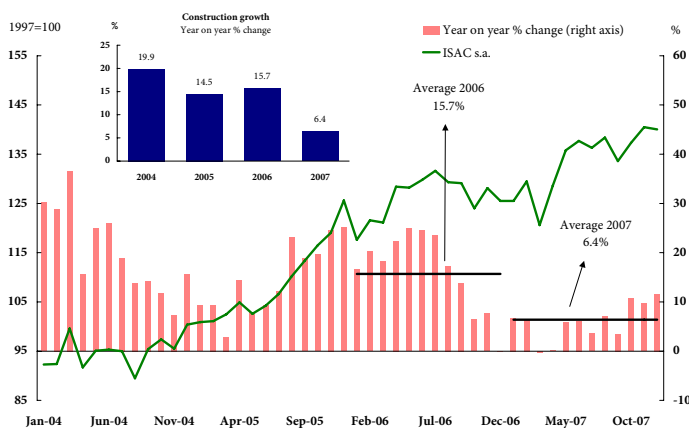
Increased investment continued to be recorded by the sector, as both supermarkets and shopping malls have increased their outlets and sales areas. In view of the fact that a further surge in consumer purchasing power is be-

Chart II.25
Supermarket and Shopping Malls Center
At constant prices - Year on year % change



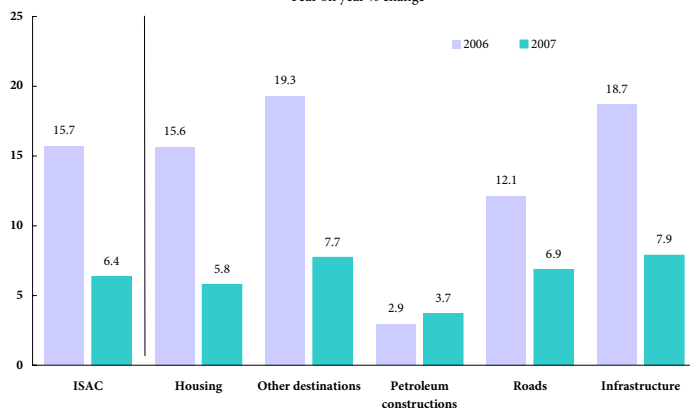
Source: INDEC

Chart II.26
Construction Evolution



Source: INDEC

Chart II.27
Construction Growth
Year on year % change



Source: BCRA from INDEC data

ing predicted, mainly from the rise in employment and wages, it is expected that commercial activity will continue to record progress in 2008. This context, combined with low levels of indebtedness (20% of GDP, split evenly between domestic and foreign) place the sector in a sound financial position, allowing it to continue to gain unrestricted access to the domestic credit market, further increasing its installed capacity.

II.2.2.5 Construction

Growth in the construction sector is being led by non-residential building, and borrowing levels are still low

The construction sector grew again during 2007, although the rate was less sharp than in previous years, given the maturity of the sector in certain segments. Activity grew 7.5% y.o.y. in the second half of 2007, ending the year with a rise of 6.4% (see Chart II.26). In the second half of 2007, the main contribution to construction sector growth came from non-residential property for industry, commerce and tourism, as well as from public sector infrastructure works (see Chart II.27).

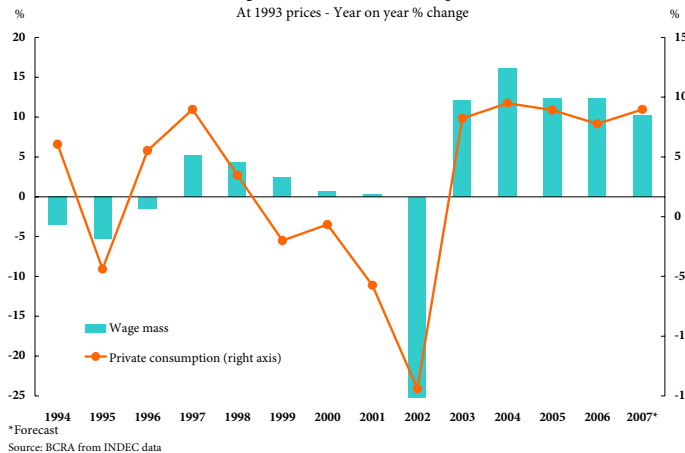
In the first half of 2007 some increase was seen in construction company liabilities, although it continues to be the sector with the lowest level of indebtedness (15% of sector GDP), with a similar proportion for domestic and external borrowing, leading to a moderate level of exposure to exchange risk. Although the construction sector is expected to continue to expand in 2008, it will do so at a moderate rate. New building permit totals and the expectations of business leaders in the sector encourage predictions of a slowdown in housing construction that will be partly offset by a rising volume of public works and construction of commercial property, offices and buildings for logistics company use. As a result, the construction sector continues to offer a sound economic and financial profile, consolidating its payment capacity.

II.2.3 Household sector

In line with higher levels of employment, wages and registered jobs, households have continued to increase their indebtedness, mainly through consumer credit lines

During the second half of 2007, household spending maintained its upward trend, driven mainly by the rise in disposable income following the rise in employment and wages (see Chart II.28) and the growth in consumer lending. The expansion in employment encouraged by economic growth led to a further fall in unemployment,

Chart II.28
Wage Mass and Private Consumption
At 1993 prices - Year on year % change

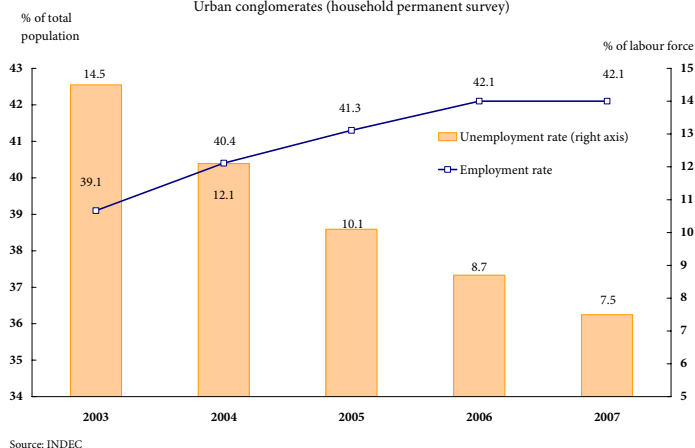


which stood at 7.5% of the economically active population, its lowest level since October 1992 (see Chart II.29).

In the second half of 2007 the increase in employment was centered on the formal segment, confirming the improvement in the quality of working conditions⁷. Household income also recorded an upward trend in the second half of 2007, a trend that was reinforced by the reduction in the tax burden and the pension increase which added dynamism to household purchasing power.

As in the last 4 years, household borrowing levels and the debt servicing burden this represents have been growing at a faster rate than income for the sector (see Chart II.30). Although overall household indebtedness continues to be below the levels of the previous decade, focus on consumer credit shows that its burden is already on a par with the situation recorded in the pre-crisis period (see Chart II.31).

Chart II.29
Activity Rate, Employment and Unemployment
Urban conglomerates (household permanent survey)



It is expected that the dynamic of the labor market will continue to be positive in 2008, and that the unemployment rate will continue to drop. In addition, household income is expected to continue to rise, following a new round of wage bargaining. If consumer credit line growth rates persist, it will be necessary to continue to monitor the household sector profile, particularly in the case of those segments more closely associated with consumption.

Chart II.30
Household Debt Burden

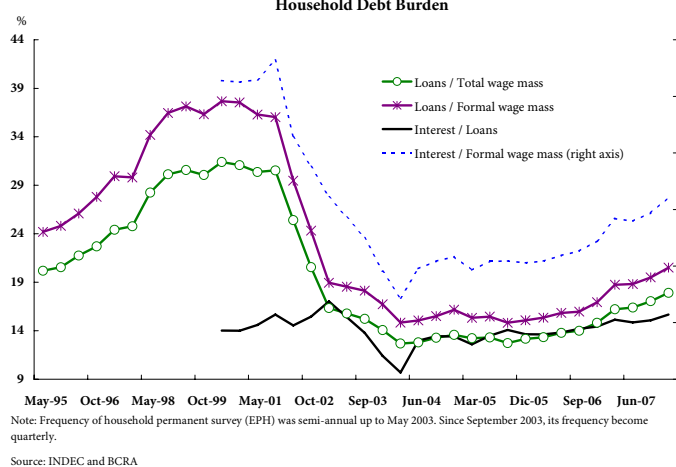
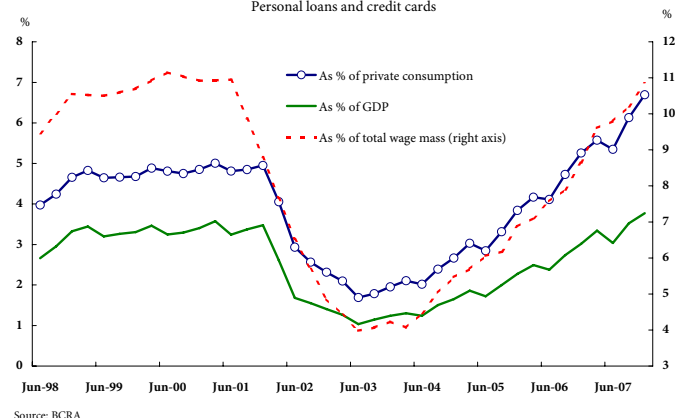


Chart II.31
Household Consumption Indebtedness
Personal loans and credit cards



⁷ On the basis of the partial employment indicators from the Integrated Pensions System (SIJyP) and the Labor Ministry's Labor Indicators Survey (EIL).

III. Capital Markets

Summary

Faced by growing uncertainty on international financial markets and increasingly intense episodes of volatility, domestic market financial instrument quotations became volatile, with a drop in prices. This situation is expected to persist through the early months of 2008, as problems on international financial markets lead to rising concern regarding a possible recession in the US that could impact on the global economy.

Yield curves for all Argentine sovereign securities ended the half-year with an upturn and wider spreads in the shorter periods, both in dollars and in CER-adjusted pesos. Risk perception indicators in relation to domestic assets have tended to rise, keeping pace with those of the rest of the emerging markets.

The Central Bank adopted various measures to soften the domestic impact of external markets volatility, including the repurchase of Lebac and Nobac bills and notes, new auctions for smaller amounts than those that were falling due, allowing assets issued by the Central Bank to be booked in investment and held in sale accounts, and the creation of domestic bills and notes. As a result, there was a drop in the total amount of Central Bank paper outstanding during the second half of 2007, with a shortening of the portfolio maturity. Bill yields grew steadily over the six months, both at auction and in the secondary market.

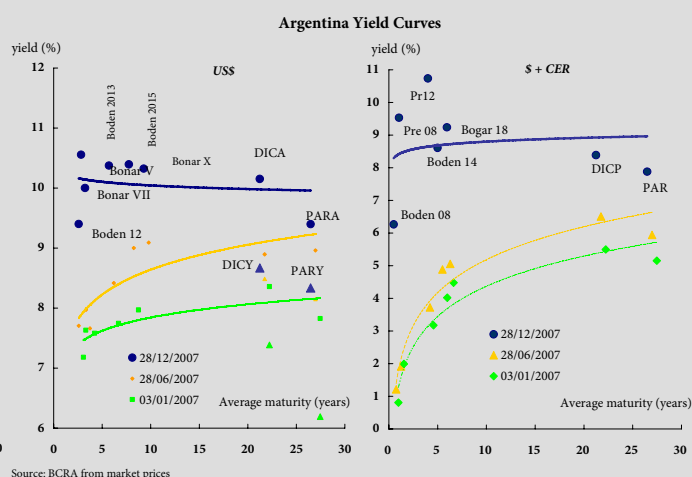
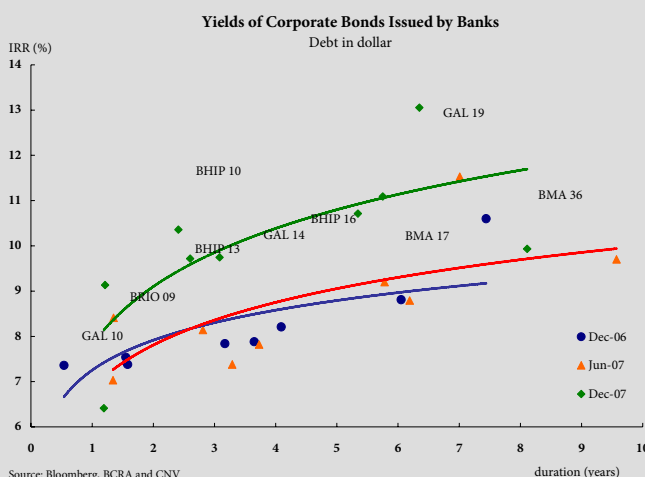
Corporate bond (ON) issuance in 2007 was similar to that in 2006, despite a reduction in the rate of issuance in the second half (with no transactions as from November). Dollar issues predominated, and most of them were made by energy sector companies. On the secondary market

there were increased yields, which in the case of corporate bonds in dollars issued by banks were in the order of 200 b.p.. Financial trusts continued to display dynamism, while deferred check operations began the half-year showing a significant increase, only to slow in the final two months of the year (as interest rates on transactions rose).

In the case of equity, although the Merval index ended the six months with a loss of close to 2% measured in local currency (after having fallen almost 20% during the market turbulence in July and August), over the year as a whole it showed a positive result (although lower than that in other countries in the region). An increase also took place in stock trading volume. Company financing raised via the stock market declined slightly compared with the first half of 2007 (although it exceeded the levels seen in 2006).

The context of greater uncertainty was also reflected in currency markets, with depreciation of the peso against the dollar and an increase in futures and forwards trading.

In view of the growing uncertainty that is affecting the global scene, the domestic market is expected to continue showing a volatile behavior. Although significant risk of a downturn persists (linked to the performance of the US economy), the possibility exists of some degree of domestic capital market recovery as from the second half of the year.



III.1. Public sector fixed income

Turbulence on international financial markets caused the price of sovereign bonds to fall, reflecting the perception of greater risk compared with the assets of other emerging countries

Bond prices posted declines over the course of the second half, reflecting the strong uncertainty on international financial markets. The poor performance began back in mid-July, when the crisis in the US subprime market impacted on the demand for assets with a greater relative risk (see page 12). International financial markets liquidity experienced a sudden contraction and re-appraising of perceived risk, given growing concern regarding the length and depth of the crisis, as well as its eventual impact on the real economy. As months went by, following the expansive monetary policies implemented by most central banks in developed countries (and by the Fed in particular) widespread price recoveries were recorded during September and the beginning of October. Nevertheless, there was no relaxation of risk aversion, and asset prices began to suffer again strongly in November, with some recovery in December (see Chart III.1),

As a result, the yield curve for Argentine bonds in dollars ended the half-year showing an upward shift (see Chart III.2). Yield increases were more marked in the short part of the curve, implying a sharp change in slope (from positive to negative). This process of leveling and subsequent inverting of the curve was also recorded by the bonds of other countries in the region. Indeed, the widening of spreads on short bills was partly attributable to the steeper slope for Treasuries. Prices of bonds in pesos adjusted by CER also deteriorated in six-month terms, with a yield curve that shifted upward and then flattened. In this context, by the end of the year a relative decline was predicted for yields on shorter-term bonds.

Although emerging country fixed income assets showed a certain relative strength⁸, Argentine government securities experienced an amplified impact of turbulence on international markets. This could be seen, for example, in the widening of the yield differentials for the Discount bond in dollars compared with similar bonds with the same duration issued by other emerging countries. Differentials doubled between July and mid-August when compared with benchmark bonds from Brazil, Mexico or Russia. Although they were subsequently to be corrected downward in part, these differentials ended the

Chart III.1
Yield of High Liquid Argentine Bonds in 2007

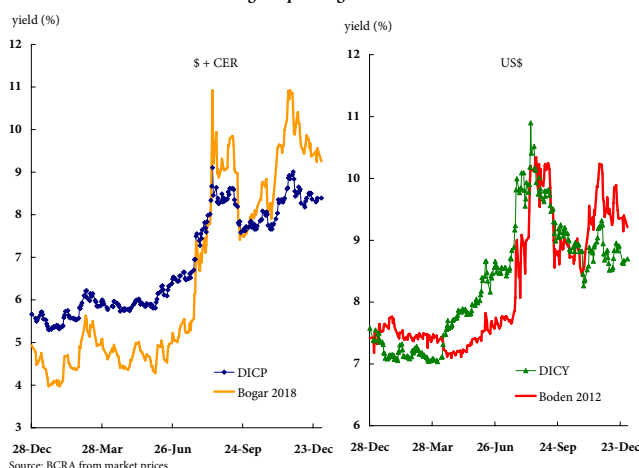


Chart III.2
Argentina Yield Curves

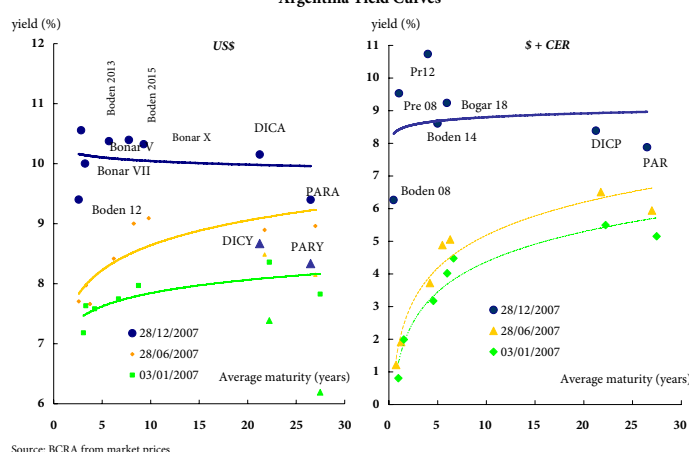
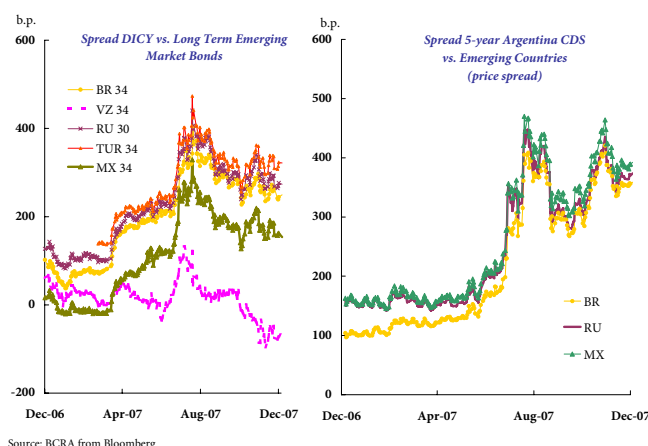
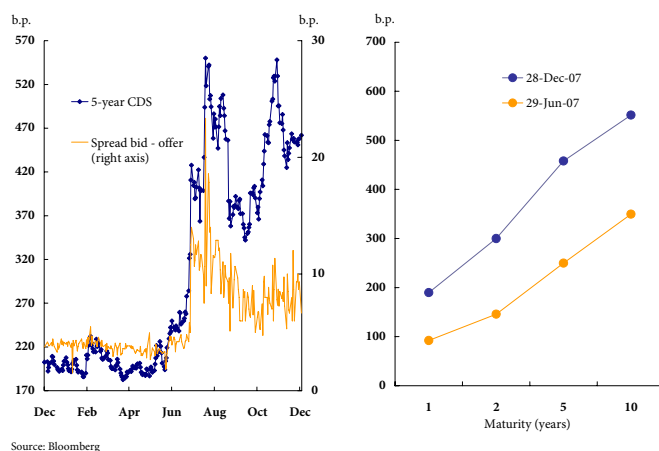


Chart III.3
Relative Value of Argentine Bonds



⁸ Despite the recording of widening spreads, this was far more limited than that seen in previous crises. Although funds specializing in emerging country debt saw significant outflows during the height of the turbulence, they quickly recovered their positive flows.

Chart III.4
Credit Default Swaps: Argentina (2007)

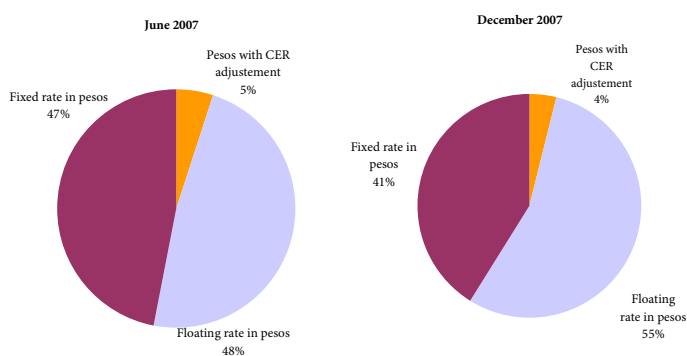


Source: Bloomberg

year a long way from their initial low levels (see Chart III.3).

This greater relative deterioration was also reflected in sovereign risk proxies such as price differentials for credit default swaps (CDS) or spreads on EMBI+ bonds. In the case of five-year CDS⁹, the maximum relative and absolute risk level for Argentina was reached in August and November (see Chart III.4). Subsequently, in line with the performance of the long bonds, there was some relative improvement during December. Despite this performance, the CDS of Argentina and Brazil recorded a different impact, with rises of 212 b.p. and 27 b.p., respectively. In the case of the EMBI+ spread, towards the end of December a level of 410 b.p. was recorded for Argentina and 221 b.p. for Brazil, with six-monthly growth of 85 b.p. and 61 b.p., respectively.

Chart III.5
Outstanding Lebac and Nobac Stock Composition

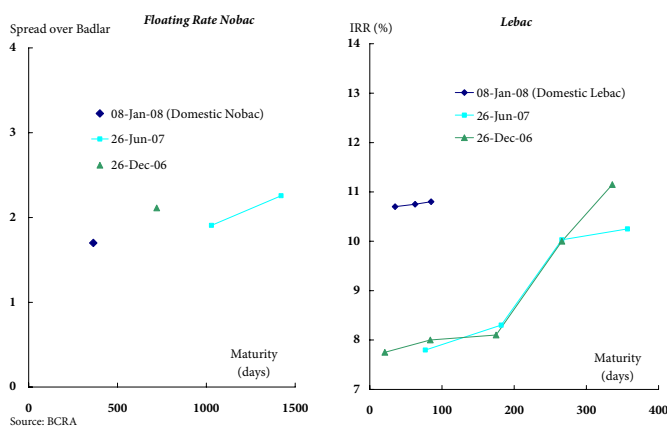


Source: BCRA

The Central Bank implemented a series of operations involving Lebac and Nobac, with the aim of cushioning the effects of financial volatility on international markets, to be able to ensure that the 2007 Monetary Program targets would be met

The Central Bank adopted a series of measures intended to inject liquidity into the system and prevent international turbulence from having a significant impact on domestic markets. It redeemed part of the outstanding stock of Lebac and Nobac by means of its intervention in the secondary market and frequent repurchase tenders. In addition, on several occasions it decided to renew lesser amounts than those that were falling due, and in some cases the regular auctions were suspended. The Central Bank also allowed banks that had opted to hold Lebac and Nobac to maturity to book them either in investment accounts or as available for sale.

Chart III.6
Lebac and Nobac Auctions: Yields



Source: BCRA

It was also decided to restrict non-resident investment in such instruments, with the aim of increasing the effectiveness of transactions on the open market. As from October 2007 Domestic Lebac and Nobac began to be issued. These instruments can only be traded locally, and holders must be residents.

Following the adoption of this series of measures, the outstanding total stock of assets issued by this Institution fell by the end of the half-year to close to \$51.4 billion from the \$61.5 billion recorded in June, a drop of 16% for the half-year. At the same time, as a consequence of the various transactions carried out, variable-rate instruments rose to account for 55% of the total amount issued, from a share of 48% at the beginning of

⁹ The most liquid series.

the half-year (see Chart III.5). A shortening of the term to maturity of the outstanding portfolio has also taken place, with a drop of 121 days during the half-year, to a level of 259 days at the end of 2007.

In line with the performance by the market as a whole, Lebac yields rose at successive auctions during the half-year¹⁰. Bill rates in particular rose by some 300 b.p. for terms of close to 2 months during the period under analysis¹¹ (see Chart III.6). It should be noted that there was a market preference for fixed-rate instruments as opposed to variable rate paper. A poor-defined curve in the case of floating-rate notes prevents six-monthly comparison.

On the secondary market the Lebac yield curve has shifted upward, with six-monthly increases of between 400 b.p. and 600 b.p. (see Chart III.7). For their part, yields on Nobac rose by almost 600 b.p., in line with the variation in the private bank Badlar rate. As a result, the spreads over Badlar of the Nobac notes showed some sign of stability, with variations ranging between –12 b.p. and +20 b.p. when comparing values between ends for the period. Subsequently, during the first days of January, both the yields on Central Bank instruments and the Badlar rate began to fall, in a situation of growing liquidity at local level.

Despite the drop in the outstanding stock and the changes in the features of the instruments issued, the share of Central Bank-issued paper in total trading volume on the MAE continued to rise compared with other fixed-income products (see Chart III.8). Central Bank instruments rose to account for 60% of all fixed income instruments traded during November, and over half the total at the end of 2007¹². Nevertheless, in absolute terms the total amount of Central Bank instruments traded showed a drop. In addition, the increased dynamism registered by Lebac trading in mid-year waned as from August (see Chart III.9).

Fixed-income instruments trading volumes fell in the second half of 2007 on the domestic market, but held steady abroad

On the local market, government security trading volumes reversed the upward trend that began in April 2006. By the end of 2007 daily average trading volume totaled US\$384 million, a decline of 15% and 48% when compared with the end of 2006 and mid-2007, respectively. According to data from the EMTA survey,

Chart III.7

BCRA Securities: Secondary Market

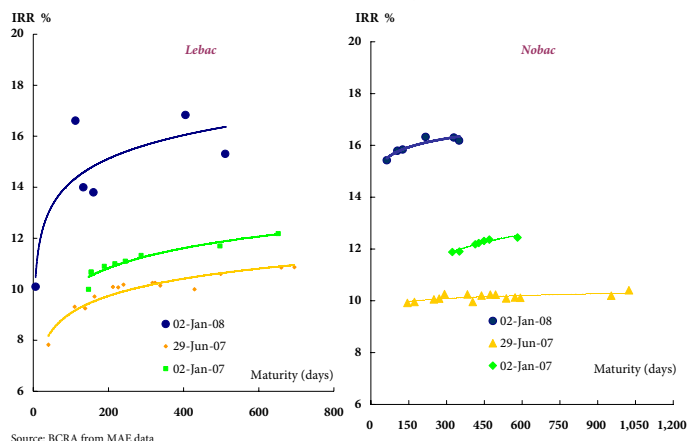
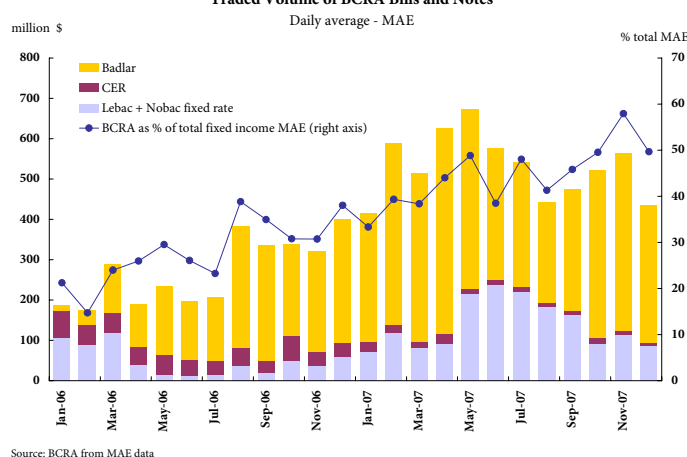


Chart III.8

Traded Volume of BCRA Bills and Notes



¹⁰ The distinctive features of the “domestic” bills and notes issued as from October 2007 should be taken into account.

¹¹ Comparison against the auction held on January 8, 2008.

¹² Based on MAE trading totals.

US\$520 billion in Argentine paper was traded world-wide in 2007, 26% more than in 2006.

Looking forward, it is expected that the prices of Argentine bonds will remain volatile, given the growing uncertainty that is expected to mark the development of international markets in 2008. Although in the base scenario some recovery is expected in prices, and yield curves will return to a sharper slope, particularly as from the second half of the year (if there is a gradual improvement on international markets), there are significant risks of a downturn, basically associated with a possibly greater than expected deterioration in US economic activity levels, with a strong impact on the global economy and commodity prices¹³.

III.2. Other fixed-income instruments

Corporate debt issuance levels in 2007 were similar to those of the previous year. Dollar issues at fixed rates predominate

Although during the first half of the year the issuance rate set a new year-on-year record, this trend was unable to be sustained subsequently because of the drastic change in international financial conditions (see Chart III.10).

As a result, in the second half of 2007 the amount issued of this instrument was in excess of \$2.4 billion, 55% below the volume in the same period of the previous year. It should be noted that as from November there were no corporate bond (ON) placements, in view of the declining risk appetite worldwide. In October and November two companies that had announced issues suspended the placement process¹⁴. Consequently, over the whole of 2007 a total of 28 bonds were placed for an amount in excess of \$9.9 billion, 3% more than the total issued in 2006. Almost all the amount issued in 2007 was to raise new funds; only two restructurings were involved, for small amounts. Therefore, the major liability restructuring process by the private sector resulting from the 2001-2002 crisis seems to be ending, with just a few restructurings for small amounts still pending¹⁵.

Deteriorating international financial markets in the second half of the year led to ON issues in dollars recording

Chart III.9
Traded Volume of Government Bonds
MAE and BCBA - Daily average

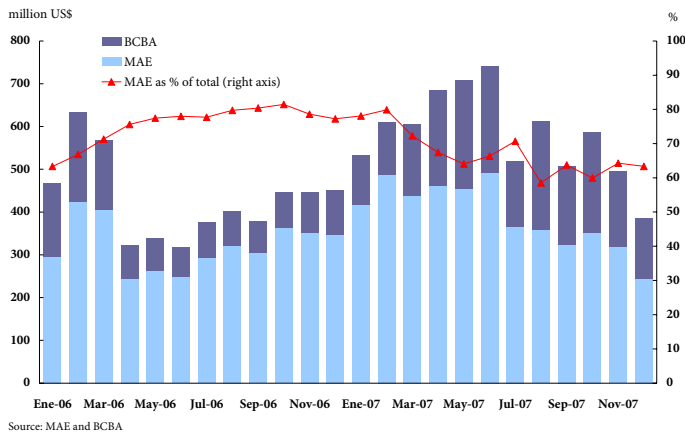
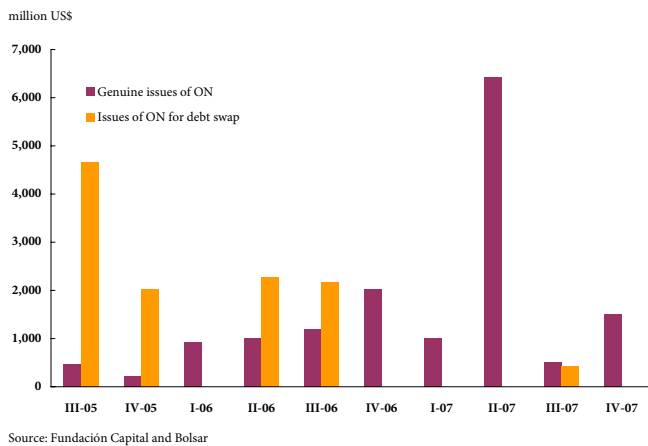


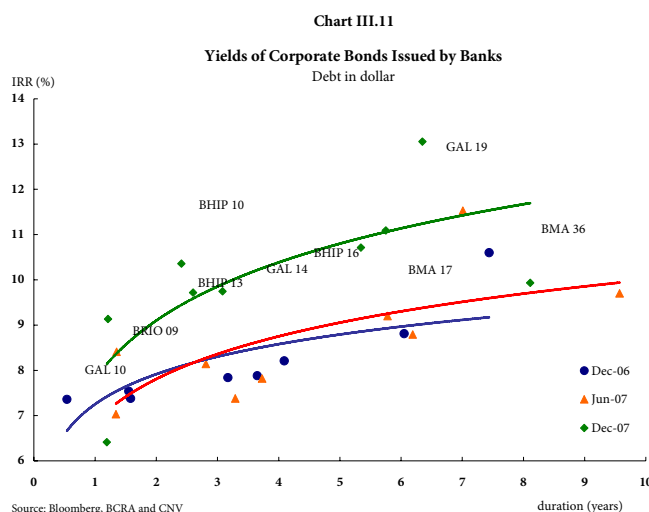
Chart III.10
Issues of Corporate Bonds



¹³ Similarly, several investment banks expect a positive performance from most emerging economy assets in 2008, although performance will be weaker than has been seen in recent years.

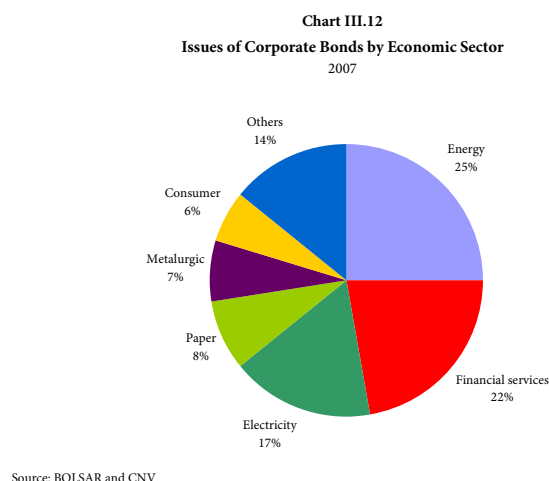
¹⁴ In one case (an ON issue by a financial institution) the postponement was until February 2008, while in the other the company announced that in the short term it would not be placing the bond for which it already held authorization.

¹⁵ In the first half (May) an issue was made by a company in the infrastructure sector (highway construction). This issue was partly to refinance liabilities, but also counted on genuine investor demand. Later in the year, in September, a company in the electricity sector restructured its debt, issuing two 10-year fixed-rate bonds for an amount of under \$500 million.



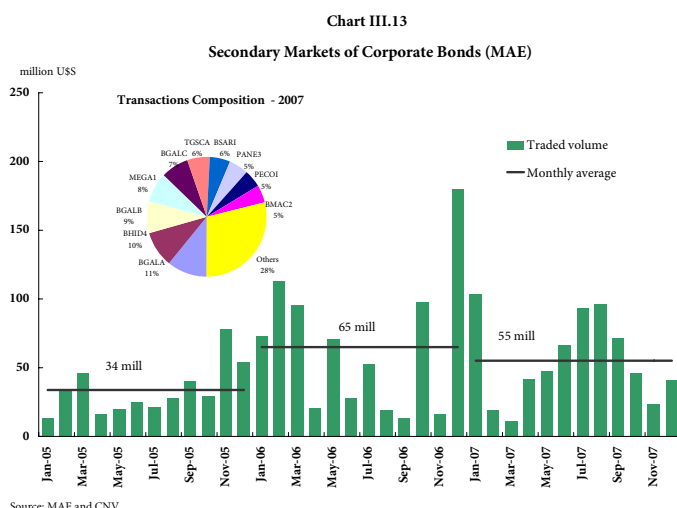
an increase in their yields, in line with the behavior recorded across all types of fixed-income assets. Analysis of the instruments issued by financial institutions reveals that in some cases the rise for the six months was in excess of 200 b.p. (see Chart III.11).

One of the notable features during the first half of the year had been the use of domestic currency for debt issues¹⁶, or the use of instruments tied to the domestic currency, as well as the possibility of obtaining financing for longer terms at a fixed rate in dollars. However, in line with the less favorable conditions, in the second half of 2007 investors were inclined to opt for dollar-denominated instruments. As a result, during the period only one issue was denominated in pesos (for a term of one year).



Financial entities ceased to be a dynamic factor in relation to debt issues during this half, at the same time as companies in the electricity sector gained in importance. This latter group recorded 5 issues in the second half of 2007¹⁷ that accounted for 61% of the amount issued during the period. These placements were made in dollars at a fixed rate for a term of 10 years. In 2007 two issues by companies in the energy sector together accounted for one quarter of the total amount issued (see Chart III.12).

Corporate bond (ON) trading volumes on the secondary market¹⁸ during the second half of 2007 showed some signs of recovery compared with the first half of the year, achieving similar levels to those for the first half of 2006 (see Chart III.13). During 2007, financial entities debt paper was among the most liquid, accounting for 29% of the trading total for the year. In addition, there was a high degree of concentration in the ON market (which is still small), as the 5 most-traded issues accounted for 45% of the total trading volume.



Financial trusts have maintained their growth rate, with consumer credit leading the way as an underlying asset

Financial trusts have continued to evidence marked dynamism: placements of such instruments set a new record in the second half of 2007. As a result, issuance during the period was 15% above the same period of the previous year, totaling more than \$5 billion in 149 placements (see Chart III.14)¹⁹. This trend shows the consolidation of this segment within the range of fixed

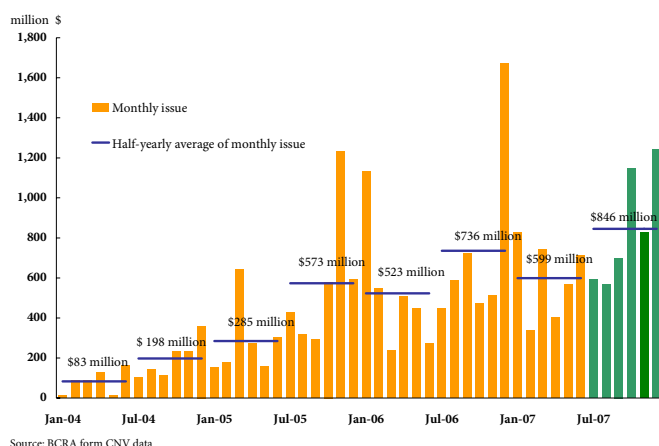
¹⁶ This trend was recorded in several emerging countries, because of demand by international investors seeking portfolio diversification while betting on the appreciation of domestic currencies (particularly evident in the case of Brazil, Mexico and Colombia).

¹⁷ Including the mentioned two restructuring placements.

¹⁸ Considering MAE trading only.

¹⁹ As a result, a total of 244 placements were made in 2007 totaling \$8.7 billion.

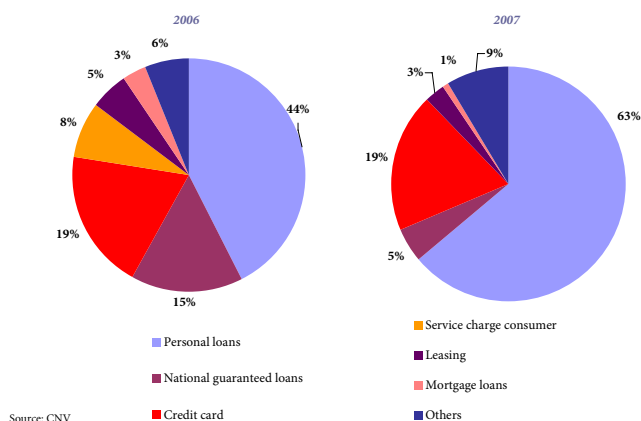
Chart III.14
New Financial Trusts



rate instruments available, based on the improvement in the economy and the relative macroeconomic stability observed in recent periods.

The leading source of underlying assets continues to be items related to consumer credit, such as personal loans and credit card coupons, which together accounted for 82% of the amount issued in the form of financial trusts (see Chart III.15). This performance can be explained on the origination side by the significant credit card sale activity that has taken place, particularly in relation to the purchase of household appliances, while in the case of demand there has been a trend towards shorter-term instruments (rather than bonds and ONs). Lastly, mention should be made of the significant issuance activity that took place in October and December, when the number of instruments and amounts placed exceeded the totals recorded in the rest of the months of 2007.

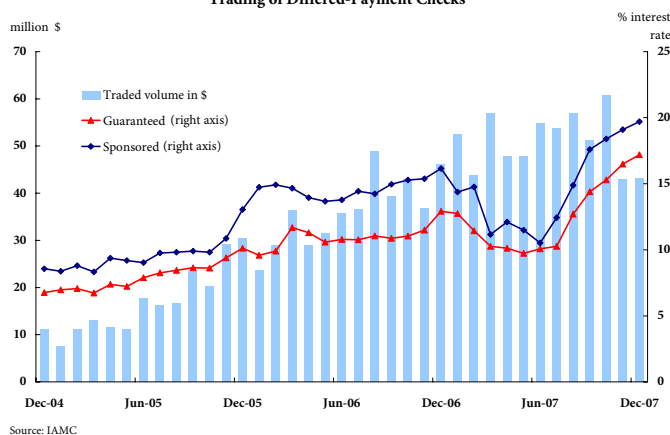
Chart III.15
Issues of Financial Trust - Classified by Underlying Assets



Deferred-payment check trading began the half-year maintaining its growth dynamic (see Chart III.16). Volume declined in November and December, however, showing the increased caution prevailing during the period. Notwithstanding this decline, the performance recorded in the early months of the half was enough to ensure the amount traded in the second six months of the year (in excess of \$300 million), was 23% higher than the amount traded in the same period of the previous year. Average discount rates began to rise as from July, so that in the case of guaranteed checks, the discount in December 2007 was on average 700 b.p. higher than in June the same year, while in the case of the so-called sponsored checks the increase was in excess of 900 b.p..

III.3. Equities

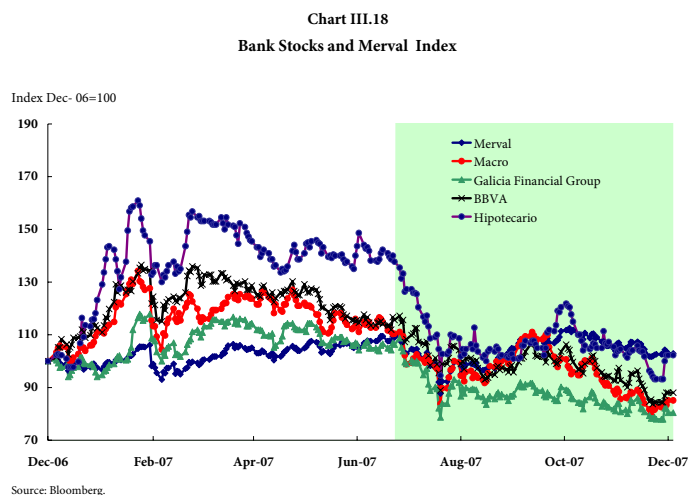
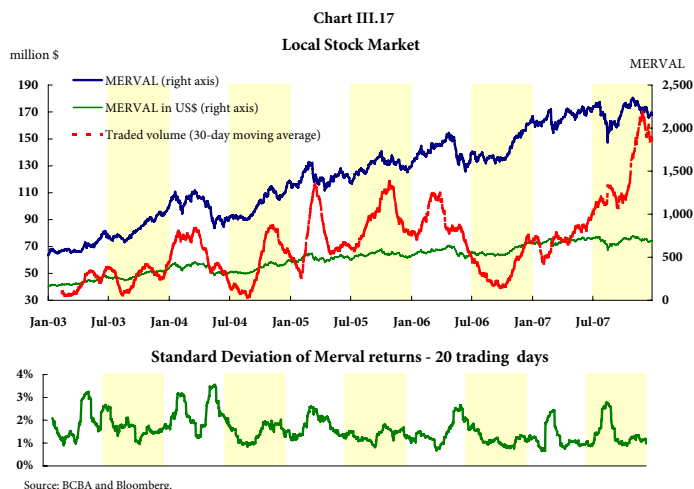
Chart III.16
Trading of Differed-Payment Checks



Domestic equities performance reflected the adverse international context, while trading volumes grew

In the second half of 2007 the Merval index posted a loss of 1.8%, although ending the year with a rise of 2.9%, measured in pesos. The annual yield measured in dollars stood at around half of one percentage point, after a drop of 3.6% in the second half (which included some depreciation of the peso against the US currency). Despite these low returns, they incorporate a recovery by local equities following a significant 20% fall in July and August 2007, which was accompanied by an increase in the volatility of returns (higher even than had been seen in February and March²⁰). Once this decline had been overcome, the Merval was able to reach a new record high at the end of October (see Chart III.17). Neverthe-

²⁰ This was due to revived concern regarding a possible recession in the United States and the announcement of new measures by the Chinese Government aimed at cooling down the market, encouraging the sale of assets with a higher risk.



less, the annual yield in dollars was modest when compared with the 73% yield by the Brazilian stock exchange, the 21% gain in Chile or the 11% gain by the Mexican stock exchange (three benchmark indexes for the region that recorded new highs in October in dollar terms).

During the second half of the year, the turbulence on international markets had a significant impact on the stocks of local financial institutions (see Chart III.18). The shares of financial institutions with the greatest weighting in the Merval index dropped 23%. Unlike in previous years, the shares of Tenaris (the corporation with the greatest weighting in the index) did not keep pace with the surge in oil prices to a new high, posting a negative variation of 5% for both the six-month period and the year as a whole.

This behavior by stock prices was matched over the course of the year by a significant increase in domestic share trading volumes. Whereas in the first half of the year the daily average totaled \$70 million, in the second half of the year the daily average was \$108 million (with peaks in November and December²¹).

Corporate financing by means of stock subscription totaled almost US\$480 million in the second half of 2007, slightly under the US\$510 million in the immediately preceding six-month period, although above the US\$350 million total for 2006 (based on the total subscription of shares in large corporations²²). The performance by the stock exchange added to capital contributions resulted in a level of stock-market capitalization by local companies of \$180 billion at the end of the year, showing a year-on-year increase of 14.4%, equivalent to approximately 27% of GDP. Although this level is 4 p.p. more than in 2006, it remains considerably below that of other comparable countries in the region (which this year reported greater growth in their stock markets by domestic companies, see Chart III.19).

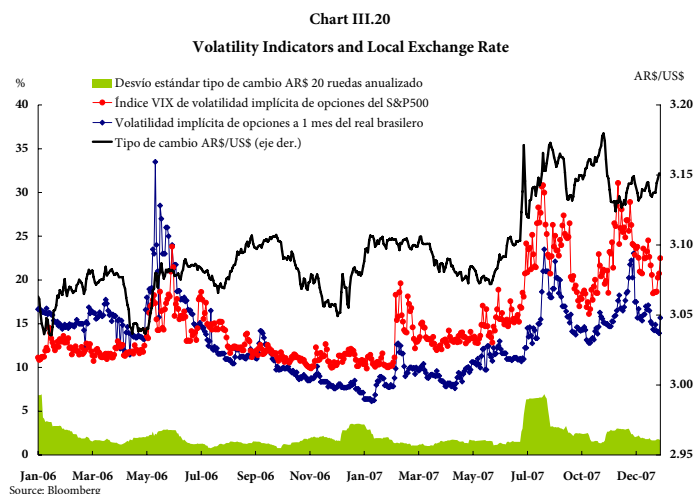
III.4. Derivatives

Turbulence on international financial markets encouraged exchange rate futures dealing, although there was no increase in volumes for other types of financial derivatives

Increased uncertainty on international financial markets was reflected in the behavior of the region's currencies. The Brazilian real, which until July had been gaining

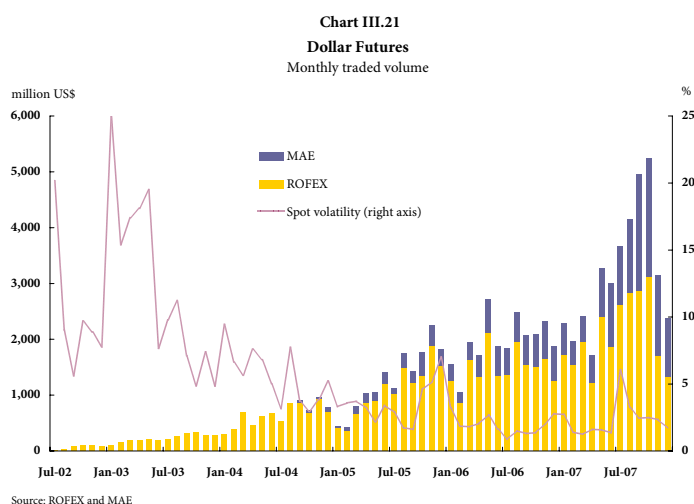
²¹ In October a ruling was issued setting a new limit on PF investments in mutual funds formed by assets of issuers in the Mercosur countries and setting a schedule so that by the end of 2008 such assets do not exceed 2% of such funds.

²² Data from reports on Capital Market Financing and the 2007 Stock Exchange Summary issued by IAMC.



ground against the US dollar, depreciated approximately 12% in less than a month. In Argentina in July the wholesale dollar, which had been trading until that moment at an average of \$3.09 per dollar, reached \$3.18, a level also reached subsequently in August and October (equivalent to a drop of 2.9%), to then drop back to an average of \$3.14 during December (see Chart III.20). In this scenario, domestic futures and forward markets reached all-time highs, supported by the increased volatility of the local exchange rate and increased participation in the market by the Central Bank.

The renewed weakening of the exchange rate against the dollar in October coincided with a record volume of forwards and futures contracts on both the OCT-MAE and ROFEX exchanges (see Chart III.21). Trading volumes declined subsequently to pre-turbulence levels, although volatility remained above the average for the first half of the year. Total trading volumes increased 61% in the second half compared with the immediately preceding period, with a similar increase in annual volumes compared with the total accumulated during 2006.



In the case of other financial futures contracts, although in the first half of 2007 the first trades took place in Discount Bond in Pesos futures (for relatively small volumes), in the second half there was no trading in this instrument, nor were any operations carried out in relation to Badlar or CER rate futures. Lack of any significant volume in this trading can partly be blamed on the absence of a clearly defined yield curve and the uniformity of the participants (a factor that limits business potential). In addition, it is also possible that these instruments are less attractive than other alternative over-the-counter products (for which no statistics are available).

Looking forward, the dynamism in dollar futures trading volume will likely continue to be backed by sustained volatility on international markets during the first half of 2008.

IV. Financial Intermediaries

Summary

The local financial intermediation activity expanded during 2007, although it exhibited a slower rate than seen the year before. The growth recorded in 2007 was driven by financial entities in particular, because institutional investors (II) recorded a reduction in the rate of growth of their assets.

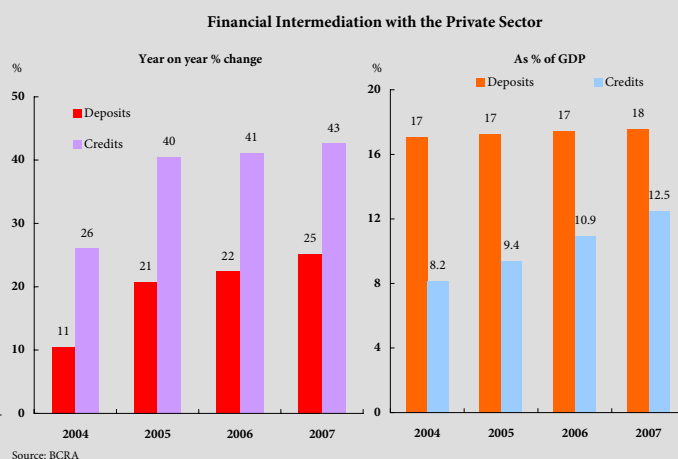
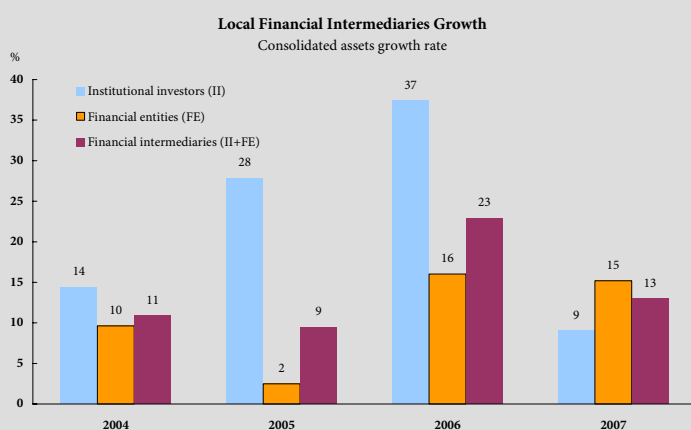
The pension funds (PF) resources recorded a fall in the second half of 2007. This change was accounted for by transfers of members and the impacts of the international financial turbulences on the domestic capital markets. In this framework the PF increased their exposure to the private sector during 2007, in a similar manner as the mutual funds. In 2008 the II are expected to expand their investment portfolio, a development that would be explained by the changes made to the regulations (especially the impact of the removal of disability insurance and life insurance and the restoration of the 11% rate for personal contributions), the improvement of the labor market, the growth of the insurance market and the recovery of the mutual funds.

In line with the incentives established by the Central Bank the volume of banking financial intermediation continued

growing in 2007. Credit to the private sector exhibited an almost 43% annual expansion (similar to 2006), with an increase in household consumption financing of almost 60% in the year. Meanwhile, the exposure of the financial system to the public sector fell by approximately 6 p.p., to remain below 16.1% of total assets.

On the other hand, private sector deposits sustained their growth to achieve an approximately 56% share of total bank funding. The context of more international uncertainty led to the postponement of some decisions to place bank corporate bonds (ON) during the second half of 2007, with the number of issues decelerating compared to those seen in the first half of the year. During 2007 issues for almost \$2 billion were made (mostly in pesos), increasing banks longer term funding.

In 2008 the level of local financial intermediation with the private sector is estimated to continue increasing, a trend mainly driven by the financial entities and to a lesser extent by the PF. In this context a growth in the financial system depth, a greater regional expansion of the financial services and getting finance for investment will be the main challenges in 2008.



IV. Financial intermediaries

Bank financing to the private sector is driving the growth of domestic financial intermediaries

During the second half of 2007 the consolidated assets²³ of the domestic financial intermediaries (including financial entities and institutional investors) recorded a fall of their growth rate, and therefore ended the year with a 13% expansion (see Chart IV.1) which was about half the rate seen in 2006.

The slower rate of growth was associated with the institutional investors (II) (pension funds, insurance companies and mutual funds), while the financial entities upheld their growth rate. These changes were led by the impact of the more volatile scenario of the international financial markets on the local capital markets and by the regulatory changes in the Sistema Integrado de Jubilaciones y Pensiones²⁴ (SIJP).

Unless the international financial context worsens, in 2008 II are expected to increase their expansion, a trend that would mostly be explained by the changes in the regulations that were adopted (the impact on the pension funds of the withdrawal of disability and life insurance and restoring the 11% rate for personal contributions), the improvement of the labor market and the growth in the insurance market and in mutual funds. The solid conditions of the financial system are an indicator of the potential future growth of banks financing to the private sector, gradually approaching the levels in other emerging and developed economies (see Chart IV.2). The momentum of this change will partly be subject to the restoration of a less volatile international scenario.

IV.1. Institutional investors

The assets under institutional investor management exhibited certain decline at the end of 2007

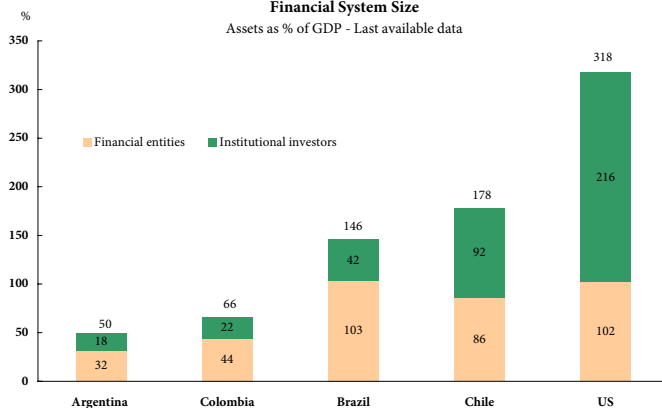
The consolidated assets managed by the II recorded a certain contraction at the end of 2007, reflecting both the impact of members transfers to the pay-as-you-go regime and the rising volatility on the international financial markets. In this manner, although the market traded sovereign and corporate investment of the II were affected by the international financial turbulence, it is worth noting that they show no direct exposure to the US sub-prime mortgage market. At the end of the year the total consolidated assets managed by the II were

Chart IV.1
Local Financial Intermediaries Growth
Consolidated assets growth rate



Note: Deposits in the local financial system are netted in order to consolidate investments from institutional investors.
Source: BCRA

Chart IV.2
Financial System Size
Assets as % of GDP - Last available data

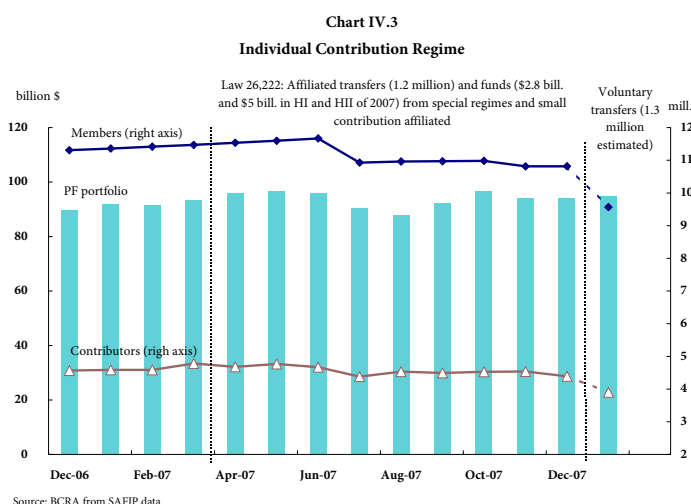


Note: Non-consolidated assets
Source: BCRA from Superintendencies, Central Banks and IMF

²³ The bank deposit holdings of the insurance companies, mutual funds and pension funds are consolidated.

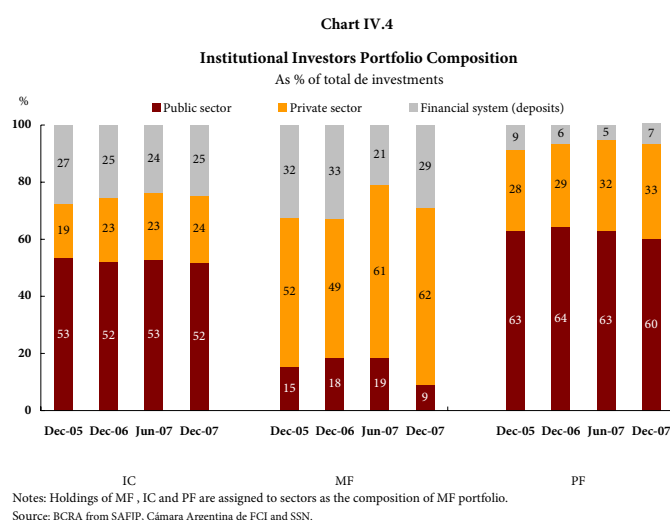
²⁴ Changes by Law 24,241.

\$144 billion, exhibiting a 2%a. drop during the second half of 2007, with an almost 9% increase in the year.



The aggregate assets portfolio of the pension funds (PF) recorded a contraction of almost \$1.7 billion in the second half of 2007 to \$94.2 billion. This change was mostly explained by the negative performance of the investments in August and November, mainly due to the effects of the international turbulence on the local capital markets, and the transfer of members²⁵ to the pay-as-you-go regime (around 1.2 million people²⁶ during 2007) (see Chart IV.3). These effects were offset to a lesser extent by the yields on the investments during the other months, the fresh contributions they received and the incorporation of new workers who joined the system.

The fall in the PF revenue flows as from 2008, in connection with the transfers (voluntary or by law), will partly be offset by a number of measures that the government took. On one hand, the pension funds will have more funds available for investment due to the withdrawal of the collective disability and life insurance (SCIF) as from 2008. Henceforth, as part of the pension fund system reform, the mutual contribution fund (FAM)²⁷, with the benefits mentioned above will start to apply in 2008. On the other hand, as from 2008 the personal contribution by the workers will rise from 7% to 11% of wages, a measure that will feed the PF resources available for investment.



The PF investments which aim at funding the private sector remained at almost 33% of the total portfolio at the end of 2007 (with a 4 p.p. annual growth) (see Chart IV.4). Funding for the public sector still dominates the assets portfolio, although a gradual declining trend is seen, partly associated with the worsening of some sovereign bonds prices during the period. In line with the joint regulation adopted by the Pension and Retirement Fund Superintendent (SAFJP), the Central Bank and the National Securities Commission (CNV)²⁸ with the purpose of boosting funding of domestic investment, the PF began reducing their holdings of mutual funds with net assets in Mercosur issuer assets, to reach a new maximum level of 2% of their total portfolio by the end of 2008.

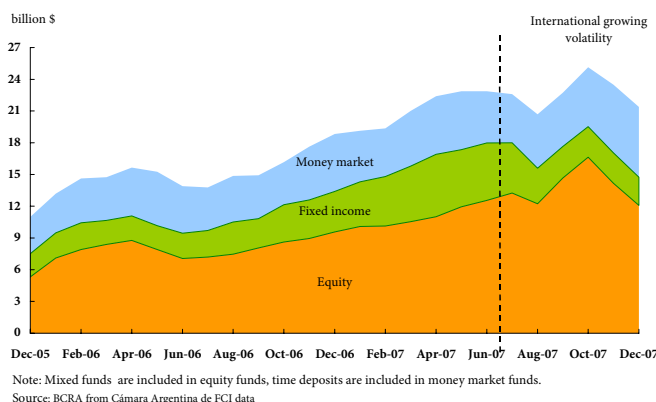
²⁵ By Law 26,222 the stocks of over 55 year old male affiliates and women over 50 years of age with cumulative incomes of less than \$20,000 and members belonging to special regimes were transferred.

²⁶ On the other hand, the option for voluntary transfer to the pay-as-you-go regime applicable in 2007 became effective as from January 2008. According to preliminary information from the National Social Security Administration (ANSeS) by February 2008 approximately 1.3 million contributors had opted for this voluntary transfer (in addition to the 1.2 million who were transferred as a result of the new law being applied).

²⁷ The FAM is made up by instalments generated by detracting a uniform percentage on all its members, from the value of the instalments of each pension fund (SAFJP Instruction 20/2007).

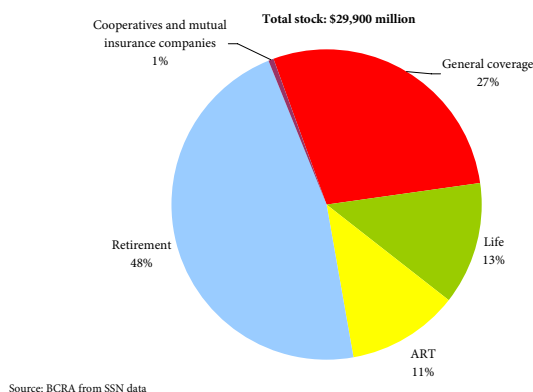
²⁸ Joint Resolution BCRA Nbr. 209, CNV Nbr. 517 and SAFJP Nbr. 10/2007.

Chart IV.5
Mutual Funds Net Worth Evolution



A minimum limit was also defined (clause Q of PF investment rules) calling for 5% of the total portfolio to be in medium and long term productive investments and in infrastructure, with a timeframe for compliance which is for at least 1% of the portfolio each year and which will become effective in 2008. On the other hand, during 2007 the PF exhibited a lower exposure to foreign investments in the context of the growing uncertainty about the international financial markets, increasing their preferences for more liquid investments like cash. In the framework of the measures that were taken, during 2008 the PF are expected to increase their financing of medium and long term domestic productive projects and infrastructure.

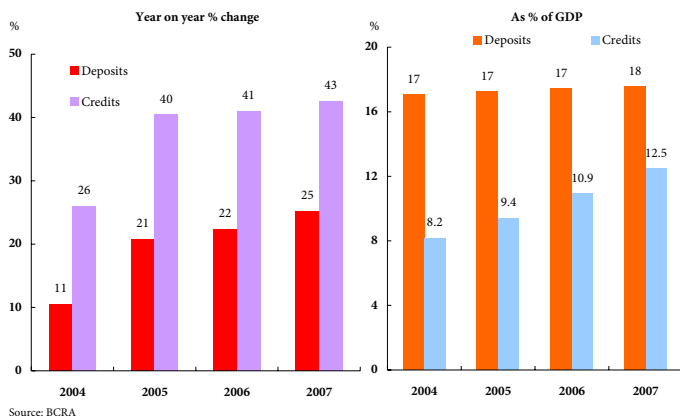
Chart IV.6
Insurance Market Composition
Investments - December 2007



The net assets of mutual funds (MF) reflected a high volatility in the second half of 2007, affected by both the redemption of unit shares and by falling prices of the government securities in their portfolio, to end the year at approximately \$21.2 billion. Specifically, during the year the fixed income funds exhibited a larger than 50% fall in their portfolio to \$2.7 billion (see Chart IV.5), while the variable income funds exhibited only a slight (3.7%) decline to a total of \$12.1 billion. The money market funds expanded during the period (by slightly over 35%) in line with a context of a preference for more liquid and less risky assets.

The fall of sovereign bond prices and the portfolio sales led the contraction of the public sector share of MF investments. Likewise, the more uncertain context generated a preference for liquid assets in the financial system. On the other hand, the exposure to the private sector increased in 2007. In the first half of 2008 the MF are estimated to continue backing more conservative strategies, with a limited exposure to the public sector and leaning towards more liquid assets.

Chart IV.7
Financial Intermediation with the Private Sector



The insurance company assets totalled slightly more than \$40.6 billion at the end of 2007 (a 17% y.o.y. expansion) with almost \$29.9 billion in investments. The insurance market sustains its gradual recovery with a persistent growth of the premiums generated by the retirement and general insurance branches, segments which manage the largest investment volumes (see Chart IV.6). The investment portfolio exhibited a fall in the weighting of its credit to the public sector and of the funds channelled to the financial system, with an increase in its financing to the private sector.

IV.2. Financial entities

Private sector deposits are consolidating as the main source of bank funding, while credit to the private sector grows persistently

Table IV.1
Balance Sheet
Financial system - As % of netted assets

	Dec-06	Jun-07	Dec-07	2007 annual variation (p.p.)	Half-yearly HII-07 % change annualized	Y.o.y. change 2007 (%)
Assets	100	100	100		12	15
Liquid assets	16	16	17	1	26	23
Lebac and Nobac	11	13	11	1	-19	23
Lending to the private sector	32	35	40	8	50	43
Lending to the public sector	23	19	17	-6	-8	-17
Other assets	18	17	14	-4	-24	-10
Liabilities + Net worth	100	100	100		12	15
Public sector deposits	19	18	17	-1	2	7
Private sector deposits	51	53	56	5	22	25
Liabilities with the BCRA (1)	3	1	1	-2	-57	-69
ON, OS and foreign lines of credit	5	5	4	-1	-7	0
Other liabilities	9	9	9	0	2	12
Net worth	13	13	13	0	7	12

(1) Include matching schedule and other liabilities with the BCRA

Source: BCRA

In 2007 the financial system achieved the fastest rate of growth of its financial intermediation with the private sector since the 2001-2002 crisis. The greater depth of the banking system was funded by the growth of private sector deposits, which reflected the momentum of credit. Despite the more unfavorable international scenario, this trend remained firm during the second half of the year.

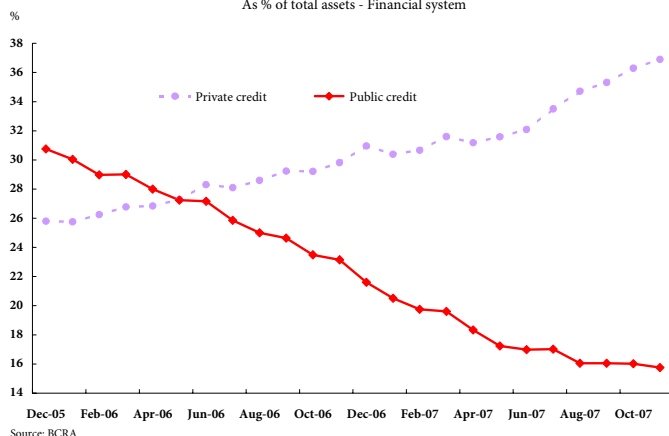
In 2007 financial intermediation with the private sector thus recorded its fourth consecutive year of growth, with improvements in the depth of bank finance to the private sector, which was 12.5% of the GDP (see Chart IV.7). Credit to the private sector was therefore the segment that increased its share of banking assets most, especially during the second half of the year (see Table VI.1). Offsetting this, during 2007 the exposure to the public sector fell 6.1 p.p. to 16.1% of assets, less than half the weighting of credit to the private sector (see Chart IV.8).

The growth of credit to the private sector totalled almost 43% during the year (see Chart IV.9), 50%a. in the second half of 2007. Although this rate of expansion was similar to 2006 its composition exhibited a more homogeneous performance. Specifically, personal loans recorded the highest growth rate in 2007, as well as being the credit segment that contributed most towards the expansion of the stock of credit to the private sector. These lines, added to the momentum of credit cards (which together make up the consumer loans to households), exhibited an almost 60% expansion for the third consecutive year, explaining about 34% of the growth of loans to the private sector in 2007.

On the other hand, the pledge backed loans, leasing and export financing recorded a dynamic above the average growth, although more moderate than the rates seen in 2006. Mortgage credit doubled its share in the increase in credit to the private sector, accounting for 13.3% of total growth. In 2007 overdrafts and promissory notes grew at similar rates to 2006, to attain a joint weighting of almost a third of the rise in private sector credit.

The measures taken by the Central Bank were incentives for the dynamics of the mortgage credit in recent years. Specifically, capital requirements for mortgage lines were made more flexible, the use of specific documenta-

Chart IV.8
Public and Private Sector Exposure
As % of total assets - Financial system



Source: BCRA

tion (like rental payment receipts) was encouraged as a proxy for proof of income, and screening and credit scoring techniques were allowed (extending the margin up to \$200,000 for housing).

As a result, in 2007 the growth of total mortgage credit (41%) was almost equal to the rate exhibited by total private sector financing, as well as amply doubling the growth rate of 2006 (17%). These developments occurred in a scenario of limited credit risk (see pages 62 and 63) and a certain stability of the interest rates. On the other hand, at the end of 2007 somewhat more than two thirds of the stock of mortgage loans was for families, a group that explained almost 75% of the expansion of the stock of these lines during the year. The main targets to which the families applied the mortgage loans were the purchase of used real estate and the building of new houses (see Chart IV.10).

The larger contribution to total growth and the extension of the maturity of mortgage credits drove the increase of the average term of the loans granted to the private sector. Whereas at the end of 2006 the maturity of the mortgage loans had been 9.6 years, by December 2007 these lending lines exhibited an average maturity of almost 12 years (lengthening to almost 14 years in the case of loans to families). In this framework the maturity of total loans to the private sector was 4 years, almost a year more than in 2006 (see Chart IV.11), an increase that was observed during the first half of the year. Despite this, in connection with the increasing volatilities on the international financial markets, during the second half of 2007 a slight shortening of the average term of the traded amounts was recorded, mainly due to the momentum of the corporate loans and of some household credit lines, like the personal and pledge backed loans.

Despite the positive performance of the mortgage loans in 2007, these still account for a small share of the GDP (1.6%) in both international and historical terms. At this point the successful evidence in other countries in the region (like Mexico and Colombia) has proved that in order to develop this kind of market, it is important to go ahead with mechanisms that boost securitization. For this purpose it is important to improve the standardization processes regarding risk analysis, real estate valuation, the documentation required, access to the debtors data bases and the amortization and collection systems, among others. In this direction, launching the Origination Manual published by the Central Bank again is an impulse towards more securitization activity.

Chart IV.9
Credit to the Private Sector
By type of line - Y.o.y. % change

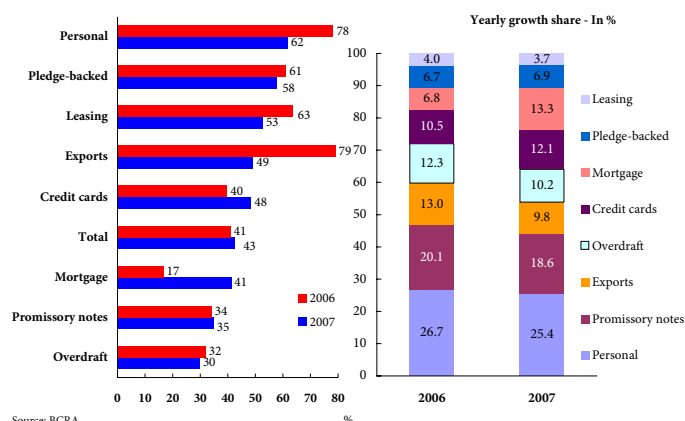
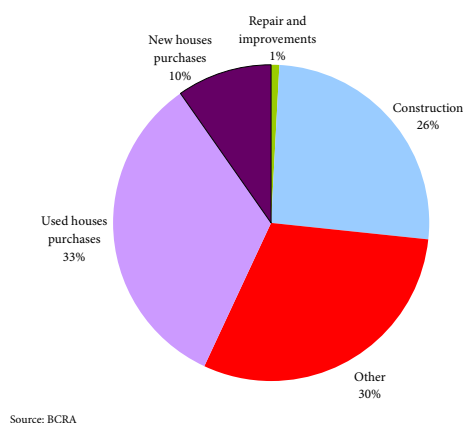
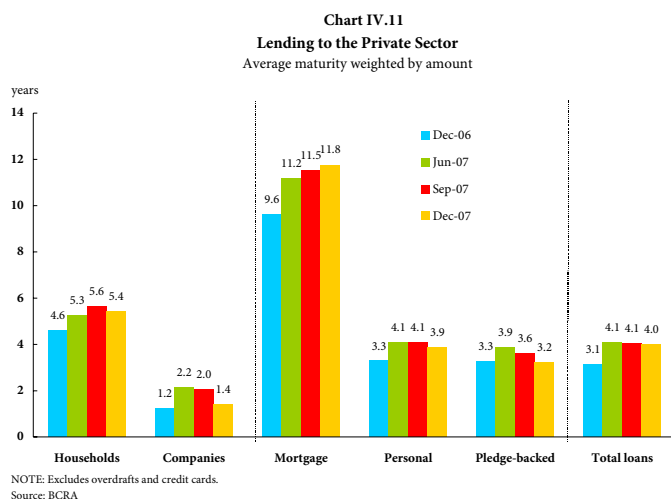


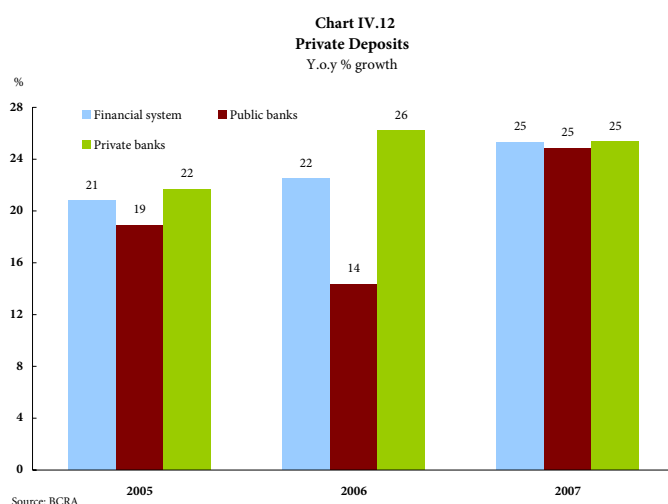
Chart IV.10
Household Mortgage Loans
Granted amounts - December 2007



Private sector deposits consolidated as the main banks source of funding

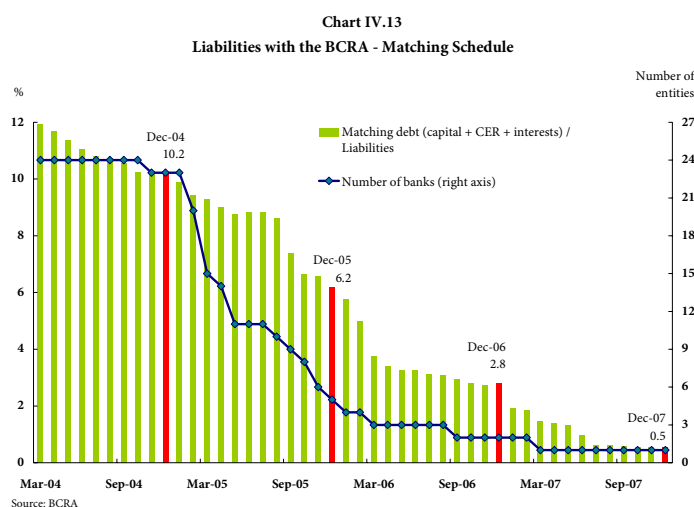


Total deposits in the financial system increased 8% during the second half of 2007 and more than 20% in the year. This growth was almost entirely explained by the private sector deposits (25%) (see Chart IV.12) with a more homogeneous growth between bank groups, and to a lesser extent by the slower pace presented by public sector deposits (7% expansion) (see Table IV.1). The private sector deposits were boosted by time and by sight deposits, with the latter exhibiting the greater relative momentum. In this scenario, private sector deposits continued gaining share in total bank funding (liabilities plus equity) as they accounted for 56%, almost 5 p.p. more than at the end of 2006. This change was partly led by the increase of the borrowing interest rates and by the context of increasing aversion to more risky alternative investments. However, the average term of the bank liabilities remains at short levels of 3 months at the end of 2007.



Growing complementary between the banking system and the capital markets in 2007

During 2007 the issues of corporate bonds (ON) by banks totaled almost \$2 billion, 62% more than the year before. This increase was led by the larger number of banks who took part in issuing these securities: while during 2006 only 2 banks obtained financing from the capital markets, in 2007 7 financial entities carried out this kind of transaction. On the other hand, in 2007 75% of the issues were made in pesos, whereas the year before they had all been denominated in dollars.



Corporate bond issues were concentrated in the first half of 2007, because the worsening of the international context in the second half led the banks to temporarily postpone the new issues. Despite the issues in 2007, the corporate bonds, subordinated obligations and foreign lines of credit keep gradually reducing their weighting in bank funding, in line with the amortization schedules and some precancellations.

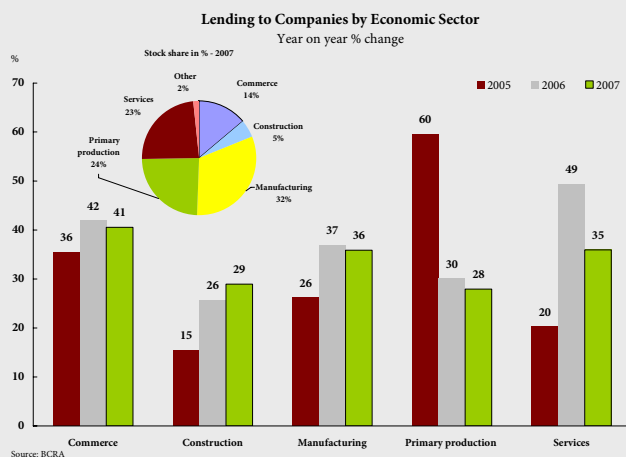
Consolidating the process of bringing bank liabilities back to normal, the rediscounts for illiquidity granted by the Central Bank during the 2001-2002 crisis were gradually reduced during the second half of 2007. Specifically, the only bank with outstanding rediscounts precancelled a considerable share of the debt it had incurred and then cancelled its installments of the matching schedule in a normal manner. In this framework the outstanding balance of this schedule was 0.5% of the

Box 2 / Corporate Finance

Corporate credit is growing at a 35% annual rate, but there is still room for improvement in terms of the depth of the medium and long term lines for investment. The institutional investors have funds available which can contribute towards this target.

In the past four years Argentina exhibited a persistent expansion of its main goods and service productive sectors, in a scenario of continued growth of domestic and international demand. In this framework, although the firms' own funds still have a significant share in meeting the fresh financing requirements, in recent years a sharp increase in the use of funds coming from the banking system was seen.

Chart B.2.1

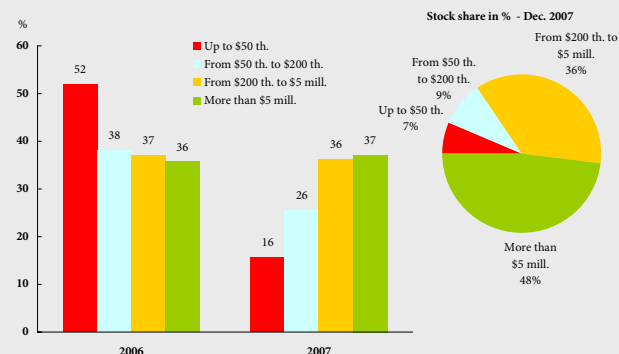


Since 2005 banking credit to firms therefore recorded an average growth rate of 35% year-on-year, which explained more than half the increase in bank financing to the private sector, but however only accounts for 7% of the GDP. In 2007 the impulse seen in the loans to manufacturing industry and firms that supply services stood out particularly (both sectors gained share in corporate lines), followed by primary production and commerce, with the latter sector having the fastest growth rate (see Chart B.2.1). Bank credit for construction exhibited a smaller increase due to the sustained use of funds from direct investors.

Although at a slower pace than previous years, it is estimated that the lines of credit for firms within the smaller relative amount range (less than \$200,000) kept growing²⁹ (see Chart B.2.2). However, these credit lines still account for a low weighting of the total, with a 16%

share. Unlike what happened in 2006, the larger line tranches saw the fastest relative growth in 2007.

Chart B.2.2
Lending to Companies by Amount Range
y.o.y % change - Financial system



In this context, a swift recovery of traditional lending lines is observable, while the use of financial instruments scarcely developed in the past decade is now expanding. Among the more traditional alternatives, overdrafts and promissory notes exhibited a growth of around 35% in the past three years (to account for 54% of banking finance to firms), while the longer term lines (pledge-backed and mortgages) gradually started to increase in mid 2006, although they still have a low weighting in the total (11%) (see Chart B.2.3). In this manner, primary production and services are the economic sectors with a heavier weighting of pledge-backed and mortgage loans in their funding structure.

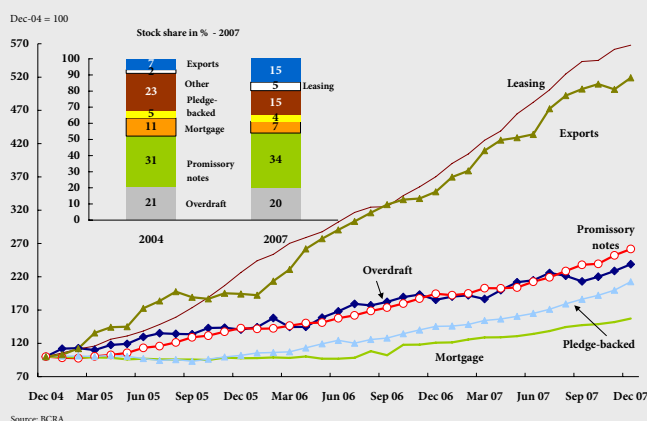
On the other hand, the favorable terms of trade and the extraordinary commodity prices have driven the deepening of export finance, exhibiting an annual growth that averaged about 75% in recent years to reach a 15% share of total corporate credit (8 p.p. more than in 2004). Leasing has also gained ground as a financial instrument, especially for small and medium enterprises. This instrument has an additional attraction, because it has financial and tax advantages and makes it easier to renovate technology.

The maturities of corporate credit lines exhibited a slightly increasing trend in recent years: in 2007 the average maturity was 1.4 years (see Chart B.2.4), longer than the 2005 term. During the past two years the extension of the maturity of corporate mortgage loans stood out particularly, exhibiting a retraction during the second half of 2007. Although the mortgage and pledge-backed lines still exhibit a limited share of the aggregate,

²⁹ Information estimated using data by outstanding balance tranches.

the growth in their share of the total seen by these lines during 2007 helped to increase the average maturity for corporate funding.

Chart B.2.3
Lending to Companies by Type of Line



Source: BCRA

Despite this favorable trend there is still a long way to go in order to achieve the definite take off of medium and long term corporate credit. Meanwhile, the Central Bank is paving the way with a number of measures like taking part in the market for interest rate swaps in pesos, trying to tackle the problem of the intrinsic interest rate risk of long term loans.

In a broader outlook of the financial sector, and aligned with the purpose of promoting credit for investment, it is noteworthy that the institutional investors represent an adequate source of funds to increase the supply of medium and long term loans. At present the institutional investors show a limited share of the medium and long term domestic productive and infrastructure financing (see Chart IV.4).

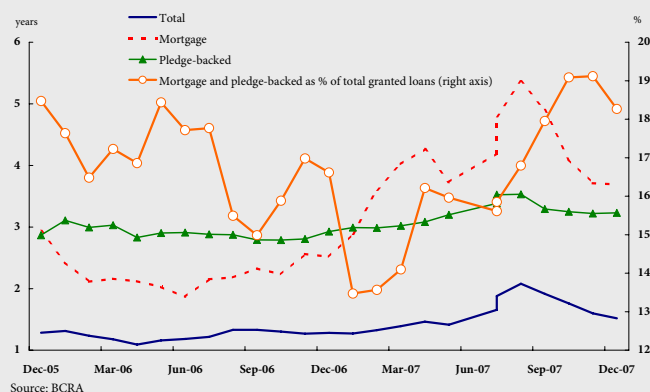
The pension funds held slightly over \$94 billion in their portfolios at the end of 2007. Of this, only approximately 1.5% was invested in long term private sector securities, an amount that rises to 16.5% if the domestic shareholdings are included. During 2008 the pension funds have to allocate a larger share of their portfolio to productive projects to comply with the pension reform enacted by Law 26,222. This measure will channel a minimum of \$1 billion in additional funds for the productive sectors. On the other hand, the insurance com-

panies dedicated to the life and retirement segment, with relatively longer investment horizons, record a joint portfolio of almost \$18 billion. In brief, the institutional investors hold funds that total almost 13% of the GDP at present, of which a share could contribute towards financing the real side of the economy.

From an integrated viewpoint, and with the institutional investors accompanied by other financial market participants, these should play a key role in the initial development of the medium and long term credit market:

- o The public sector banks acting as a state subsidiary at locations not reached by private sector banks.
- o The capital markets: direct finance through banks and/or helping to mitigate risks.
- o The development banks channeling funds and as second floor banks.
- o The international credit organizations, extending terms and promoting the capital markets in pesos.

Chart B.2.4
Maturity of Granted Loans to Companies
3-month moving average



Source: BCRA

Looking ahead at 2008 the prospects for the different productive sectors, combined with their financial profiles (see page 27), are an attraction to channel credit funding. On the other hand, the institutional investors face the challenge of expanding their long term finance of the productive sector. In this manner, corporate credit keeps deepening, increasing the financial sector contribution to domestic economic growth.

Chart IV.14
Financial System Structure by Type of Bank

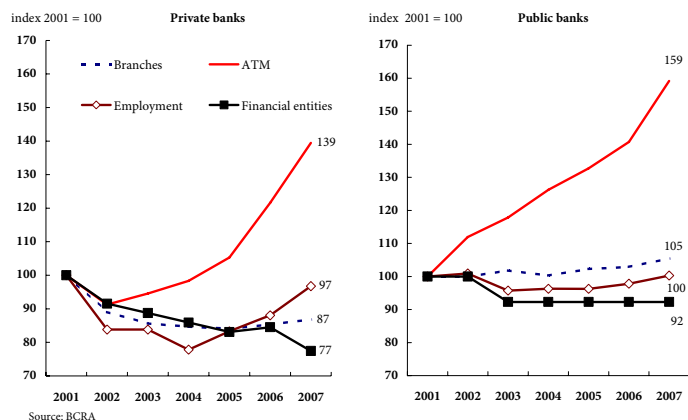


Chart IV.15
Productivity
At 1999 prices

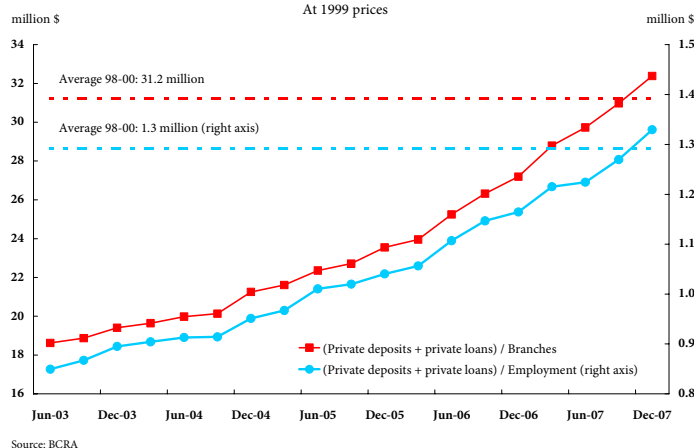
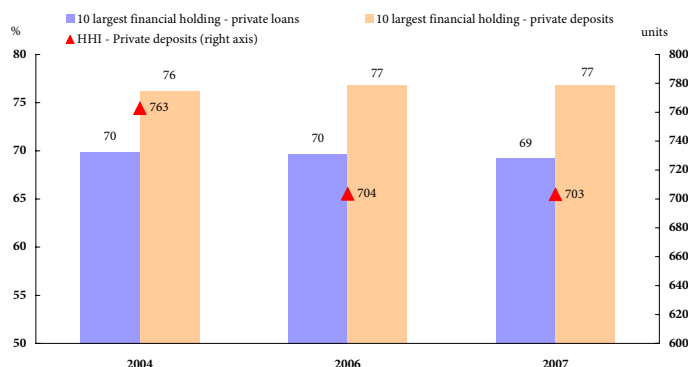


Chart IV.16
Financial System Concentration Level
Stock share - Considering financial holdings*



financial system's liabilities in 2007, 9.7 p.p. less than the amount at the end of 2004 (see Chart IV.13).

Increases in the number of automatic teller machines (ATMs) and branches in a framework of more productivity

The favourable perspectives for the banking system were materialized in both payroll increases and the growing amount of branches and ATMs. During the year payroll grew 7.3% (6,700 employees) to reach similar figures to the pre-crisis levels at both public sector and private sector banks (see Chart IV.14). The number of ATMs grew 14.3% (1,050 units) during 2007, surpassing the 2001 figure by 44%, a trend which although exhibiting more momentum at the public sector banks (as they started from lower levels), was mostly accounted for by the private sector banks. The number of branches increased 1.7% (42 branches); although for private sector banks it still remains below the pre-crisis figure. On the other hand, the number of financial entities exhibited a slight fall in 2007 to 85 (five fewer than at the end of 2006), due especially to merger processes within private capital business groups.

The larger volume of financial intermediation is still accompanying the productivity improvements. In a framework of expansion of the number of branches and the payroll, the increase of the loans and the private sector deposits being larger than the expansion of the productive factors meant that in 2007 the productivity indicators exceed those achieved prior to the crisis (see Chart IV.15).

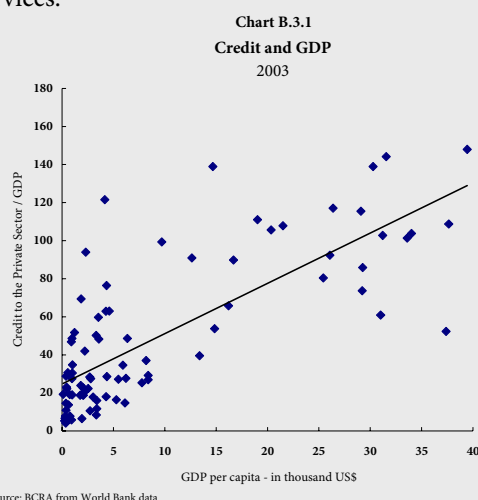
Despite the resizing process recorded in recent years, the degree of financial system concentration remained relatively low and stable (see Chart IV.16). Deepening the momentum which began in the post-crisis period, the banking system continues highlighting its trend towards a more uniform distribution of the market by bank type. In particular, in 2007 the domestic capital private banks increased their share of the private sector deposits to 32%, at the expense of the foreign owned banks, although the latter group still exhibits the largest market share (37%).

Box 3 / Banking Services in Argentina

In economic literature there is evidence that highlights the role of financial services as a mechanism to achieve a larger degree of social inclusion, reduce poverty and moderate inequalities in the income distribution. In this manner, considering a sample of countries a positive relationship between the depth of credit for the private sector and per capita GDP is observed (see Chart B.3.1)³⁰. Therefore, in the domestic (and regional) context it is relevant to carry out a diagnosis of the access extent and use of banking services by the private sector, with the purpose of continuing to design measures that contribute towards increasing its depth.

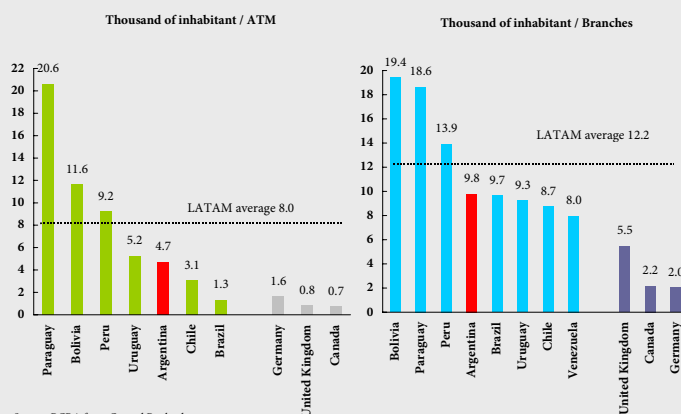
Although in Argentina the volumes of deposits and loans to the private sector relative to the GDP are still low (18% and 12.5% respectively), the ratios of bank branches and automatic teller machines (ATM) to inhabitants stands at relatively better levels than those of the rest of the region (see Chart B.3.2).

Furthermore, in recent years an improvement of the regional access to financial services was recorded in Argentina, in a context of the growth of activity in all provinces. The number of inhabitants per ATM exhibited a significant relative progress in the districts with least coverage like North West and North East Argentina (NOA and NEA) (see Chart B.3.3.). At present the gap between the region with most coverage and least is 3.2 times, a figure far below the ratio attained in the pre-crisis period (5.1 times), which becomes a sign of the persistent incorporation of technology by the domestic financial system, increasing the availability of financial services.



³⁰ For an analysis of the relationship between financial depth and economic development see Box 1.

Chart B.3.2
Financial System Depth - Regional Comparison



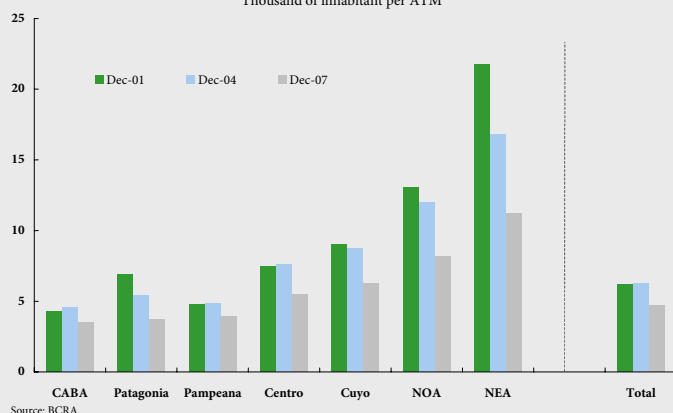
However, in both Argentina and the rest of the world, there is still a significant path to cover in order for the degree of banking services to approach to a situation that helps to reduce poverty and to improve social inclusion. Likewise, the use of banking services in Latin America is still far from that observed in the financial systems of developed countries.

Specifically, at a local level there is plenty of room to increase access and use of banking services. According to the estimates appearing in a survey carried out by the Central Bank³¹, of almost 3.2 million families without access to financial services (41% of the total), the conclusion is that more than 750,000 would be interested in starting to use some of the available financial services. On the other hand, it is estimated that almost 13% of the approximately 4.6 million families that use banks want to increase the degree they employ these services. Likewise, from the estimate resulting from the survey 150,000 firms (23% of the total) are seen to have an interest in access to bank financing.

In respect to households, Patagonia is the region with the largest percentage of banking services use (68%), while the Central region exhibits the lowest level (50%). Consistent with expectations, the households with high and medium incomes saw high levels of banking services (between 82% and 85%), amply exceeding the national average (55%), whereas one out of every two low income households uses banks, a share that falls to one in five for those below the poverty line.

³¹ To have a broader vision on what determines banking services during 2007 the Central Bank ordered a survey to be carried out among firms, families and domestic financial entities.

Chart B.3.3
Financial System Regional Coverage
Thousand of inhabitant per ATM



On the other hand, due to the high weighted average level of corporate banking services use (83%), as well as the high percentages that appear in the sector and size analysis (see Chart B.3.4), the most adequate dimension for research becomes the availability of financing. On this count the farming and commercial sectors stand out with 37% of firms with financing. On the other hand, as may be expected, the large firms obtained a larger share of bank loans, surpassing the micro-undertakings and the small and medium enterprises.

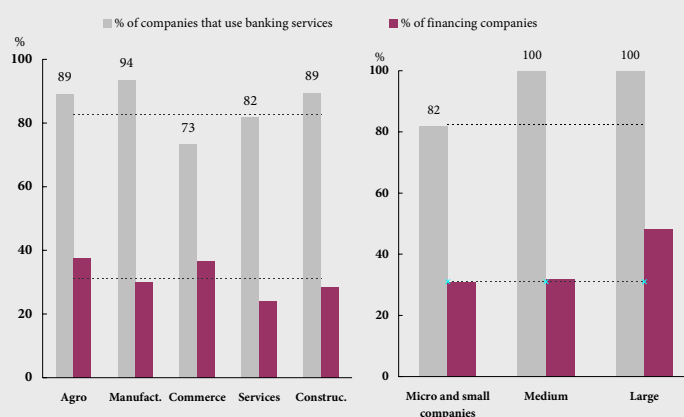
From the information that appears in the survey certain qualitative indicators allow for a clearer vision to be prepared regarding the restrictions the private sector has when it seeks access to financial services. According to the results of the survey, among the principal barriers that households face the following are found: mistrust of banks, the unstable economic situation, the lack of revenues and the existence of excessive requirements for access to these services. On the other hand, the firms polled indicate the economic instability and administrative expenses, as well as the interest rate levels, the characteristics of the contracts (at variable interest rates) and the requirements called for by banks, as the main restrictions that make access to bank finance difficult.

Among the aspects that the banks might improve in order to stimulate more interest in their services one finds the quality of the services provided and the speed of transactions (attention by cashiers, replies to inquiries, solving problems and assessing credit applications). Households are likewise interested in getting better attention by bank staff, while firms are attracted by a reduction of the costs of holding accounts.

In this manner, the Central Bank continues implementing a number of measures to improve this historical limitation of the local financial system. The education

and financial transparency policies (customer portal, the financial education program and the transparency regime) aim at bringing the population and the banks together in a framework of growing confidence in the financial system. As regards requirements, work has been done to validate credit scoring and screening models and to promote a universal basic account with minimum costs and requirements.

Chart B.3.4
Bank Deepening



Likewise, the Central Bank adopted a number of measures to promote more access to financial services at a geographical level. Capital requirements were established that depend on the characteristics of each region, mobile operating outlets were authorized, setting up branches in zones with little access was made easier and the requirements to install new cooperative credit unions made more flexible. Thereafter the Central Bank will keep deepening the measures that enable more access to financial services by the population, while continuing to guarantee the framework of monetary and financial stability.

V. Risk Management

Summary

In a context of growing turbulence on international financial markets, whose local effects were attenuated by Central Bank action, banks were able to maintain an adequate management of their risks during 2007.

The measures taken by the BCRA to confront this unfavorable scenario succeeded in strengthening banks against liquidity risk. Specifically, minimum cash requirements were modified, liquidity was injected by various means, and it was resolved to issue domestic Lebac and Nobac for use by residents only. The effectiveness of these measures, added to adequate levels of financial system liquidity, lead to forecast that banks should be in a sound position to face liquidity risk in 2008.

Reduction in the public sector exposure in the context of fiscal accounts that are evolving positively and lower levels of Government debt have strengthened the position of the financial system in the face of the credit risk of this sector. Furthermore, during the year banks continued to increase their exposure to the private sector, period in which company and household payment capacity has remained robust. A sign of this can be seen from the fact that at the end of 2007 the non-performance ratio for the private sector stood at a historical low of 3.2% of loans, for a total drop of 0.6 p.p. in the second half of 2007 and 1.3 p.p. for the year. Lending to companies has been responsible for this dynamic. Lending lines associated with consumer spending (personal loans and credit cards) increased 0.6 p.p. in 2007, to 3.6% of loans, making it one of the aspects to be monitored in 2008. Despite this increase, it is expected that banks will continue to gain

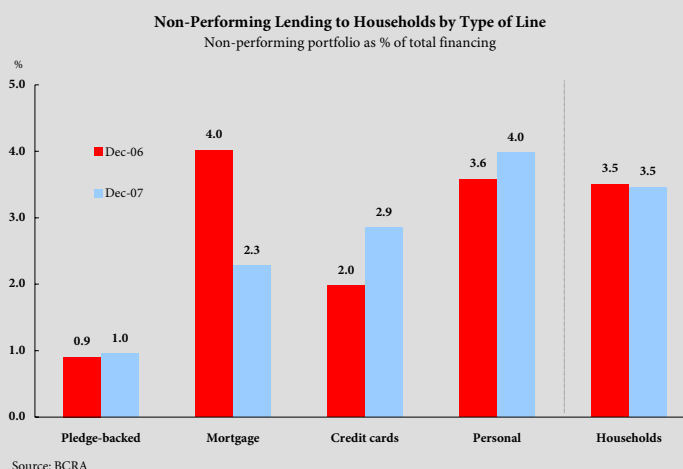
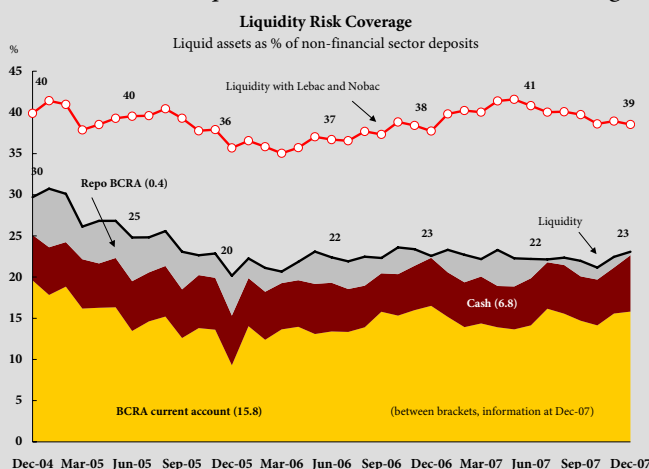
strength in order to confront the credit risk of the private sector.

The financial system recorded a moderate increase in its exposure to foreign currency risk in 2007 in view of the enlarge in the active position in dollars and fluctuations in the peso-dollar exchange rate in the third quarter. Nevertheless, banks continue to show a sound position in the face of this risk.

Banks are gradually mitigating their exposure to interest rate risk, a trend led by the declining weight of public sector assets held in portfolio, which are mainly for longer relative terms and fixed interest rates.

With the aim of avoiding excessive short-term fluctuations in the results of those banks holding securities, the Central Bank announced changes in regulations on bonds booking in investment and held for sale accounts. These measures moderated the increase in bank exposure to market risk.

During 2008, bigger levels of volatility on international financial markets will be the main reason for any possible materialization of the risks faced by banks.



V.1. Liquidity risk

Measures implemented by the Central Bank have strengthened the liquidity position of the financial system as it faces the domestic impact of a more volatile international financial scene

The measures implemented by the Central Bank to confront the impact of increased international financial volatility on the domestic capital market succeeded in strengthening banks in the face of liquidity risk. The injection of resources helped to avoid an interruption in the private sector credit growth process, while at the same time maintaining an adequate level of liquid assets.

Companies and households deposits recorded an increase of \$14.8 billion (22%a.) in the second part of the year, a figure that rises to close to \$31.4 billion for 2007 as a whole (approximately 25%). As a result, private sector deposits totaled almost 56% of total financial system funding (liabilities plus net worth) at the end of the year (5 p.p. above the level in 2006). This dynamic was recorded in a context of moderately rising interest rates for peso time deposits (see Chart V.1) and increased investors risk aversion in relation to the riskier alternatives.

Within this framework, bank liquid assets (made up of cash, current accounts at the Central Bank and cash repos with the Central Bank) stood at 23% of non-financial sector deposits at the end of 2007 (see Chart V.2). This is slightly above the level recorded in mid-2007 and at the end of the previous year, mainly as a precautionary response to the more uncertain international situation. As a result, the liquidity of the domestic financial system remains in line with the rest of the region, exceeding the levels posted by financial systems in developed economies (see Chart V.3).

If holdings of Lebac and Nobac are included, the liquidity ratio amounts to approximately 39% of total deposits, which although slightly below the figure recorded in mid-2007, exceeds the level at the end of 2006. With the aim of avoiding future distortions as a result of foreign investors activity, who take positions in short-term Central Bank bills and notes, as from November 2007 domestic Lebac and Nobac have been issued that can only be traded domestically by agents resident locally. This measure was taken to preserve the role of these securities as a liquidity reserve and prevent prices from suffering excessively during times of uncertainty.

As a result, financial system liquidity continues to exceed the requirements in pesos established by the Central Bank (see Chart V.4), showing a precautionary mar-

Chart V.1
Private Deposits

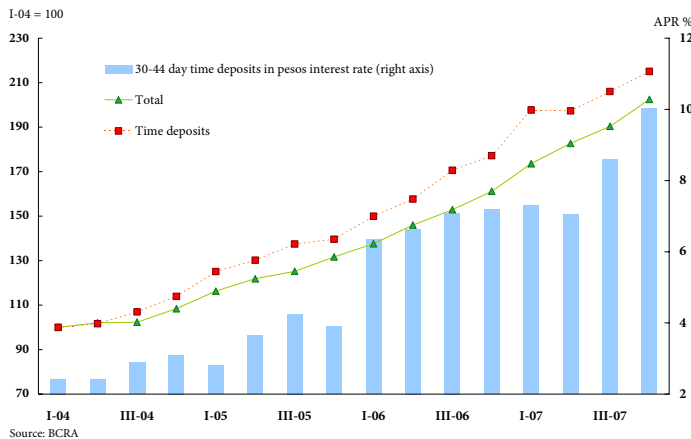


Chart V.2
Liquidity Risk Coverage
Liquid assets as % of non-financial sector deposits

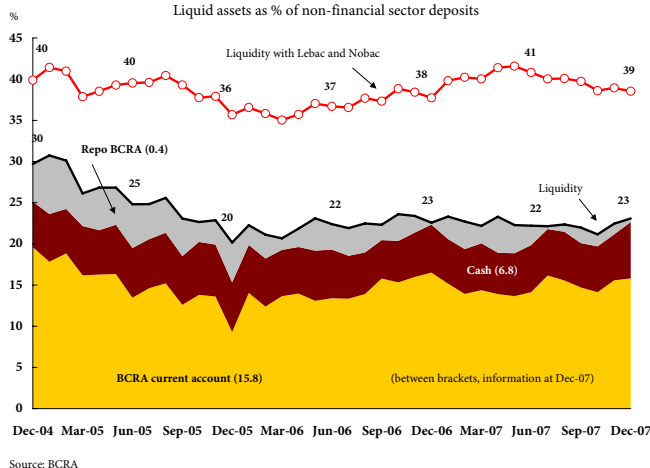
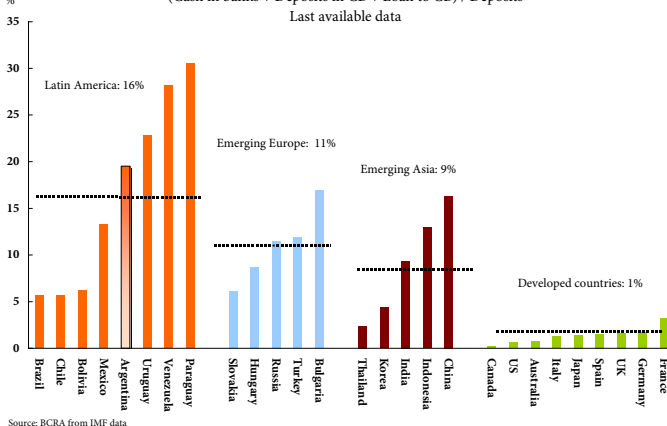
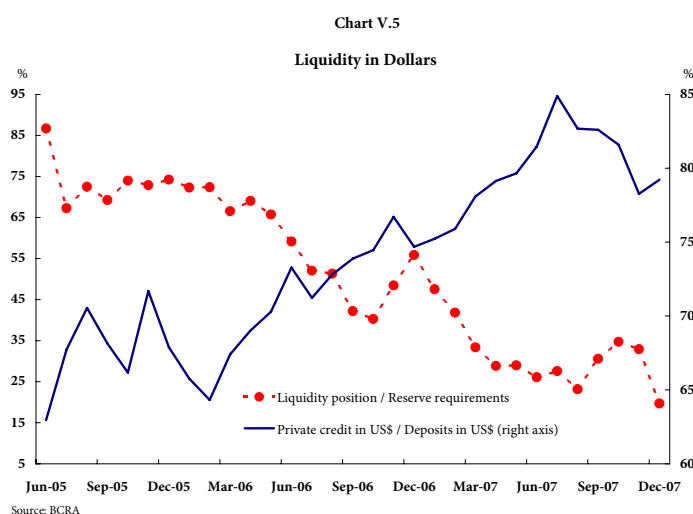
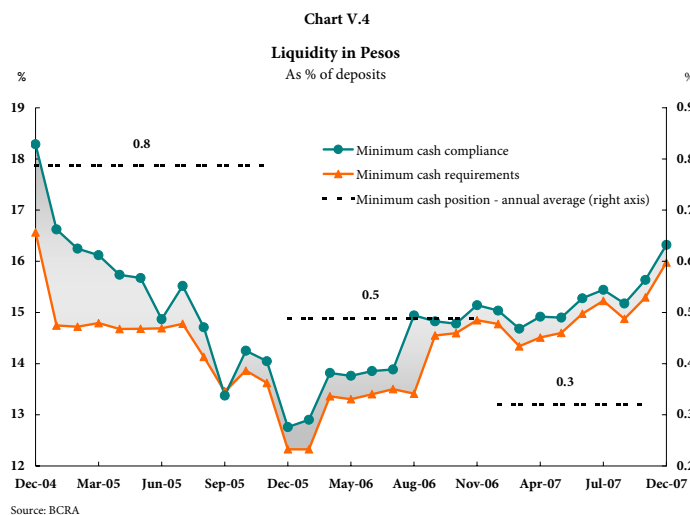


Chart V.3
Liquid Assets International Comparison
(Cash in banks + Deposits in CB + Loan to CB) / Deposits
Last available data



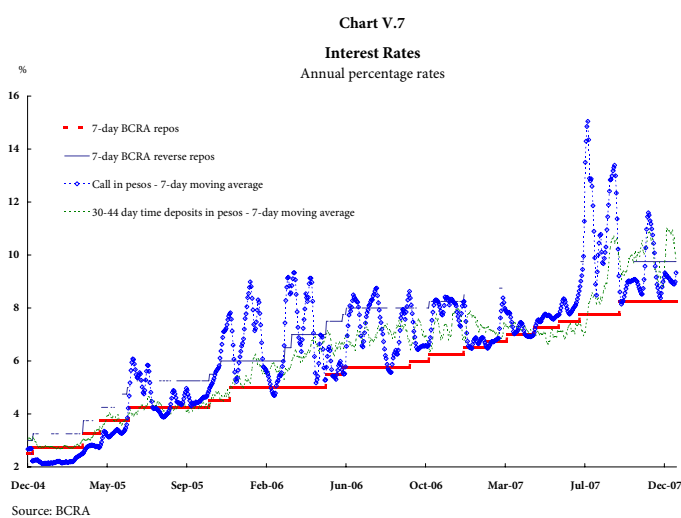
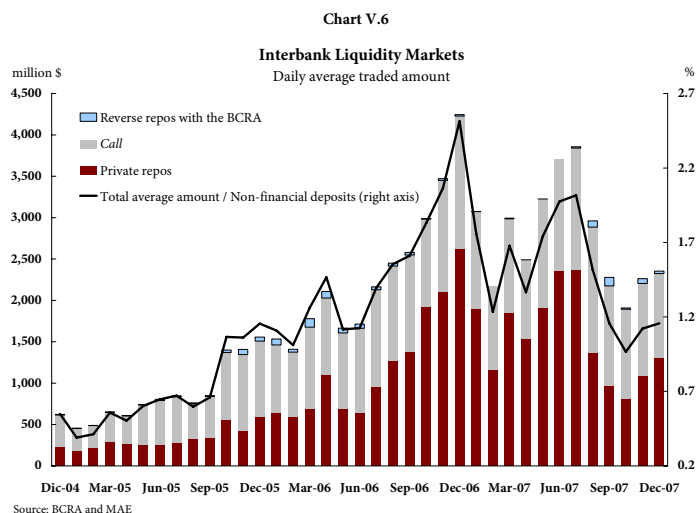


gin that has been declining in the post-crisis years. This trend has been in line with the steady expansion in lending to the private sector, making a more efficient use of available resources. Deposits in dollars also rose (by over 35% in 2007, particularly in the second half of the year), a trend that continues to be matched by increased lending in that currency (mainly for export finance purposes). Therefore, at the end of the year the foreign currency position was equivalent to 20% of the requirement, almost one third of the level at the end of 2006 (see Chart V.5), with an increase in the use of such resources for lending in a context of limited exposure to currency risk (see page 65).

Although the impact was limited, inter-bank liquidity markets were affected by the increased volatility of the international context

In the second part of 2007 inter-bank liquidity markets reflected the impact of rising volatility on international financial markets. Whereas over the course of the second half of the year there was a slight increase (7%) in call market trading volumes compared with the first part of the year (see Chart V.6), the effects of rising external volatility on the domestic capital market led some banks to temporarily withdraw from the market or adopt speculative strategies for the management of their liquidity, influencing interest rates (see Chart V.7). Inter-bank private repos recorded an increase in the middle of the year, later falling back in line with the normalization of the liquidity situation in the system towards the final quarter of 2007.

This situation was attenuated by the mechanisms adopted by the Central Bank to increase domestic liquidity. On the one hand, changes were made to minimum cash reserve compliance that included two-month calculation periods (July-August and October-November), the second of which without the possibility of any carry-over of excess compliance, and a reduction in the daily minimum requirement (from 50% to 40% of the previous month's requirement), measures that were combined with the December-February compliance period. On the other, liquidity was injected by means of various mechanisms: repurchase on secondary markets of securities in pesos that had been issued by the Central Bank, auctions for the repurchase of Lebac and Nobac in bank portfolios, auctions of 7-day reverse repos at a fixed interest rate, suspension of the weekly Central Bank security auctions and the inclusion of national government securities as assets eligible for repos with the Central Bank.



Towards the end of 2007 there were signs of increased depositor preference for sight rather than time deposits. As a result, the ratio between private term deposits compared with sight deposits posted a slight drop to 80% of the total, 6 p.p. less than at the end of 2006. The term to maturity of new time deposits remained at approximately 50 days. In this case, gradually rising interest rates on time deposits in line with incentives established by the Central Bank though its repo operations are expected to encourage a lengthening in the maturity of bank funding, increasing the attractiveness of such deposits in banks.

In a context of rising volatility, it is estimated that in 2008 the financial system will remain adequately positioned to face liquidity risks

Although increased lending to the private sector will eventually be reflected in lower liquid asset levels, the measures implemented by the Central Bank will continue to constitute mechanisms to provide banks with short-term liquidity tools to confront the local effects of an increasingly volatile international financial scene. In addition, the recovery by the Central Bank of its role as a lender of last resort continues to provide protection to financial entities in the event of any unexpected withdrawal of deposits by the private sector. As a result, looking forward to 2008, it is estimated that banks will continue to record an adequate position in the face of liquidity risk.

V.2. Credit risk

V.2.1. Public sector

Widespread reduction in bank exposure to the public sector, while fiscal accounts are evolving positively, will strengthen the position of the financial system in the face of the credit risk of this sector

Bank exposure to the public sector stood at 16.1% of assets at the end of 2007 (17.1% of netted assets), showing a decline of 1.2 p.p. in the second half and 6.1 p.p. over the course of the year. As a result, lending to the public sector has accumulated a drop of 25 p.p. of financial system assets in the last 3 years, in line with the regulatory incentives emitted from the Central Bank. The reduction in the exposure to this sector was widespread among the various groups of financial entities, with a notable performance by private retail banks with a nationwide reach and official financial entities over the course of 2007 (see Chart V.8). As a result, public sector share in financial system assets is in line with the levels recorded in pre-

crisis years, and below those shown by some of the leading economies in the region (see Chart V.9).

This gradual reduction in public sector participation was a result of the scheduled amortization of government securities, the sale of such securities, the receipt of pending compensation in cash, and also the growth by financial system total assets. This dynamic in part reflects the regulatory incentives established by the Central Bank to promote a reduction in the exposure of the financial system to the public sector. In particular, since July 2007 new maximum individual exposure levels have been set (35% of assets, compared with 40% previously).

In this scenario, it should be noted that the volatility in the domestic capital market during the second half of the year, in the context of the turbulent situation on international financial markets, affected the sale of government securities by banks: almost 80% of the drop in exposure to the public sector took place in the first half of the year.

The reduction in bank balance sheet exposure to the public sector, together with improvement in its payment capacity, helped to strengthen the position of the financial system in the face of the credit risk posed by this sector over the course of 2007. Significantly, the national public sector concluded its fifth consecutive year of financial surplus, while the reduction of indebtedness levels in terms of GDP has been maintained (see page 25).

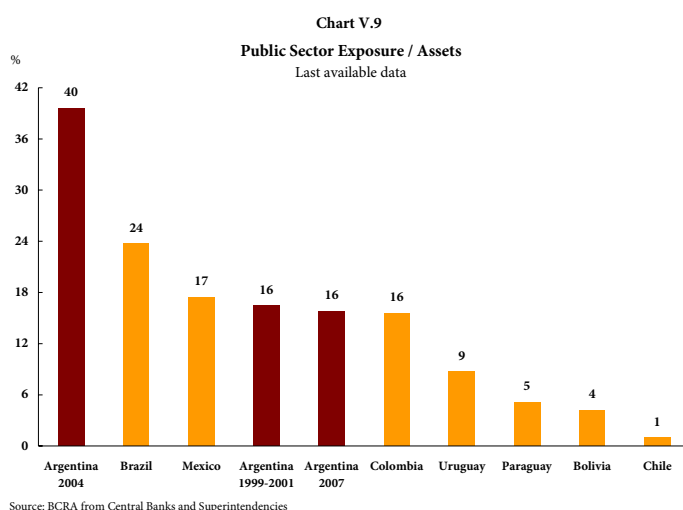
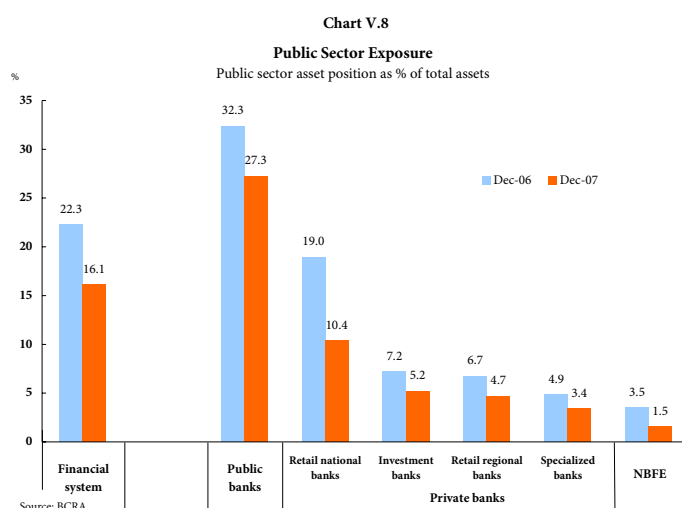
It is expected that in 2008 banks will continue to exhibit a sound position in the face of public sector credit risk

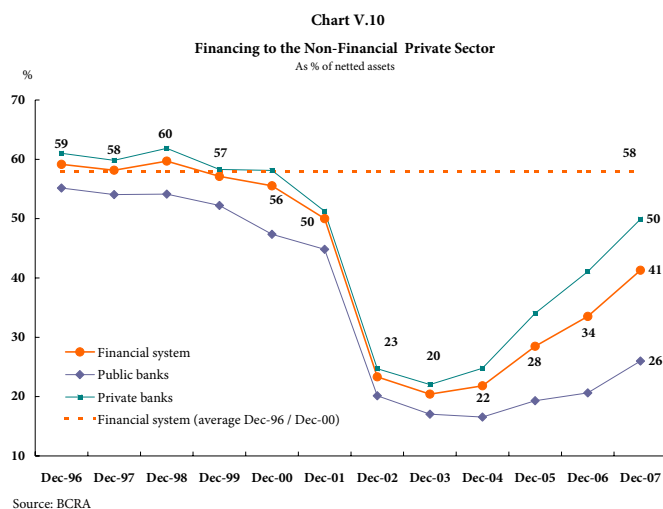
During 2008 it is foreseen that the financial system will continue with the gradual reduction of its exposure to the public sector, although a situation of growing volatility on international financial markets could lessen this trend. Fiscal accounts are also expected to continue to perform well, based on rising tax revenue and the budgeted slowdown in primary spending. One element to be monitored will be the performance of sub-national accounts and provincial borrowing needs. Overall, it is expected that the financial system will continue to show a sound position in the face of public sector credit risk.

V.2.2. Private sector

In 2007 the financial system continued to increase its exposure to the private sector, in a context of limited risk from lending to companies and households

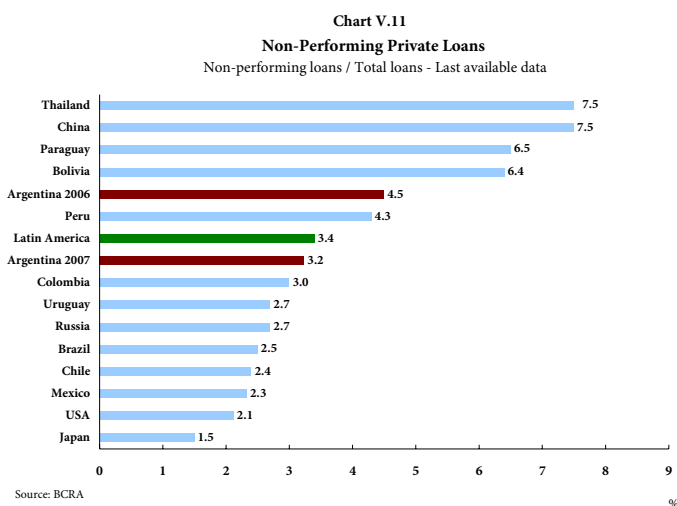
In the context of recovering employment and income levels for households, and expansion by the various pro-





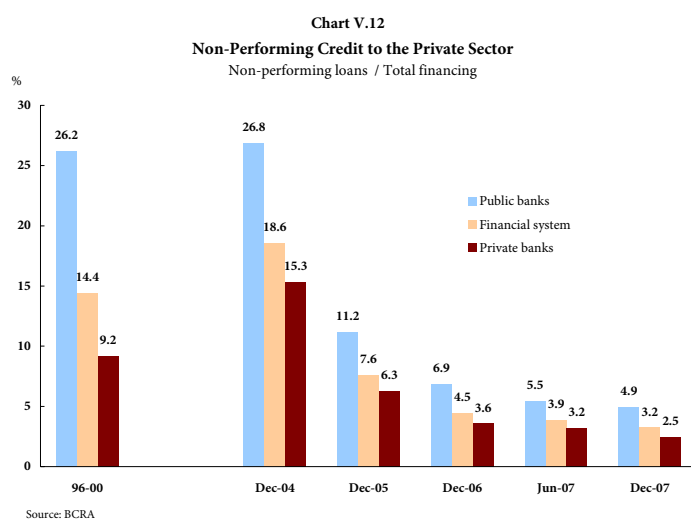
ductive sectors, during 2007 banks continued to increase their exposure to the private sector. Still moderate levels of company and household indebtedness (see page 27), combined with macroeconomic conditions, contributed to the healthy economic and financial position of this sector, thus consolidating the strength of the financial system in the face of the credit risk.

At the end of 2007 bank lending to companies and households stood at 39% of total assets (over 41% of netted assets) (see Chart V.10). Although it is still below pre-crisis levels, in the second half of the year the share of lending to the private sector in total financial system assets posted an increase of 5,6 p.p., with a boost of 7.8 p.p. in 2007 and 19.5 p.p. in the last 3 years. As in recent years, growth in lending to the private sector was mainly led by private banks, where exposure totaled half their assets in 2007, a level close to that recorded in the last years prior to the 2001-2002 crisis.



Within the framework of sustained growth in lending to the private sector, portfolio quality indicators have reached record levels. At the end of 2007 the non-performance ratio for the private sector portfolio totaled 3.2% of lending to the private sector, with a drop of 0.6 p.p. in the second part of 2007 and 1.3 p.p. for the year. As a result, private sector loan non-performance is in line with the average for the main Latin American economies (see Chart V.11).

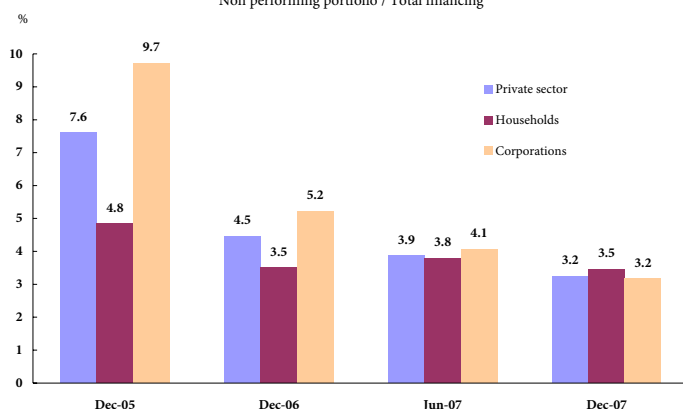
Improvement in private sector portfolio quality in 2007 was led by public banks, with a reduction of 2 p.p. in their non-performance ratio to 4.9% (see Chart V.12). In the case of private banks, delinquency dropped by 1.1 p.p. of lending to the private sector, to a level of 2.5% by the end of the year. Specialized private banks and non-bank financial entities recorded a slight increase in their non-performance over the course of 2007, in part because of the dynamic of household consumer lending, while the remaining bank groups posted improvement in the quality of their credit portfolio.



Progress in the performance of the private sector portfolio during 2007 was largely accounted for by lending to companies (see Chart V.13) for which non-performance fell to 3.2% at the end of 2007, 2 p.p. below the level for 2006. Household delinquency levels remained low (3.5% of loans), showing a slight increase in the first half of 2007, later dropping back in the second half of the year.

During the second part of 2007, almost 86% of loans maintained their credit rating, while 3.7% improved their credit situation and 2.9% recorded deterioration. Loans that in mid-2007 were in situation 1, more than

Chart V.13
Non-Performance Loans to Corporations and Households
Non performing portfolio / Total financing



Source: BCRA

Table V.1
Transition Matrix June / December 2007
As % of non-financial private sector financing

		December 2007							
		Performing		Non-Performing				Writte off (*)	TOTAL
		1	2	3	4	5	6		
June 2007	1	90.8	0.8	0.0	0.0	1.1	0.0	7.2	94.2
	2	34.6	17.7	0.7	0.0	33.6	6.7	6.6	1.9
	3	13.3	67.6	3.2	0.1	5.6	0.9	9.4	1.2
	4	4.6	45.8	38.6	0.0	1.7	0.0	9.3	1.5
	5	2.7	1.4	49.5	0.0	0.3	0.1	46.0	1.1
	6	4.8	0.3	0.3	80.5	0.3	0.0	13.7	0.1
	TOTAL	86.5	2.6	1.2	0.1	1.7	0.1	7.7	100.0

Figures based on debtor information at the start of the exercise

(*) Includes both repaid financing and that charged-off from balance-sheet

Source: BCRA

94% of the total (see Table V.1), registered a slight deterioration of 1.9 p.p. in their quality, with 1.1 p.p. dropping into the non-performing category. Non-performing loan segments in mid-2007 showed widespread improvement in their performance. As a result, 46% of the non-performing loans in mid-2007 reported normal payments at the end of the year, 31% improved their situation (without achieving performing status) and only 2.7% showed worsening.

In view of their recent origination, it is estimated that credit lines granted in 2007 (over half the total) show a non-performance rate of only 1.9%. Loans granted between 2005 and 2006 (over one-third of the total outstanding stock at the end of 2007) recorded a delinquency rate of 3.2%, in line with the overall rate. Loans granted up until 2004 recorded a delinquency rate of 11.1% (see Chart V.14). Consequently, 36% of total non-performance is accounted for by credit lines extended to large companies in the pre-crisis period for which restructuring agreements have still to be reached.

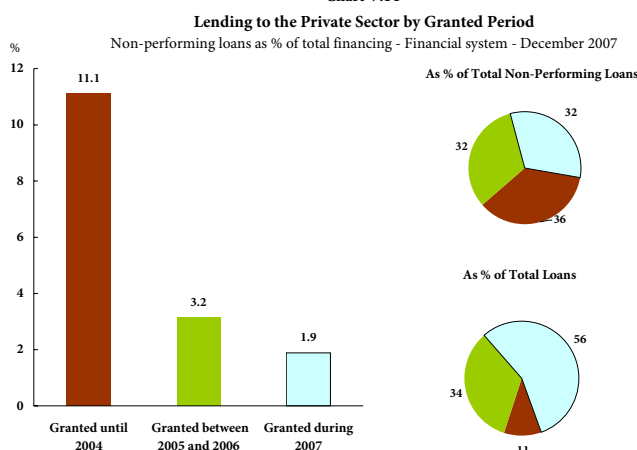
Banks continue to display sound coverage in the face of credit risk

Over the course of 2007 the financial system continued to display a comfortable level of provision coverage. At the end of 2007 provisions stood at 130% of the total non-performing loans, similar to the level recorded the previous year. As a result, the ratio of non-performing loans covered by provisions in terms of net worth remains negative for the financial system as a whole (-3%) (see Chart V.15), a sign of the sound position of both public and private banks in the face of the risk of lending to the private sector. In addition to adequate coverage by means of provisions, strengthened solvency helps to ensure that the financial system is firmly positioned to face any credit shocks.

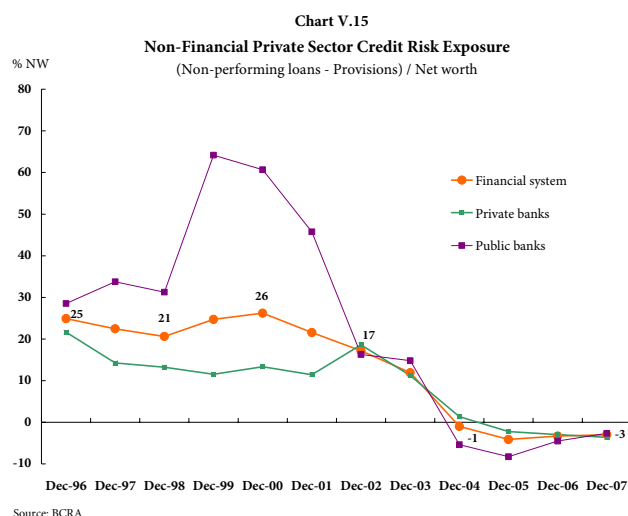
Despite the more volatile international scenario, it is expected that banks will continue to increase their exposure to the private sector in 2008, preserving their limited credit risk exposure

As the Argentine economy will extend its growth cycle into a sixth consecutive year in 2008 (see page 22), while household and company borrowing still continue at moderate levels, it is expected that in general the private sector will strengthen its financial profile, helping to keep the credit risk faced by banks within bounds. Nevertheless, any worsening of the international context could have an impact on lending interest rates, with an impact on the financial position of certain debtors. In addition, the regional impact of a recession in the US

Chart V.14



Source: BCRA



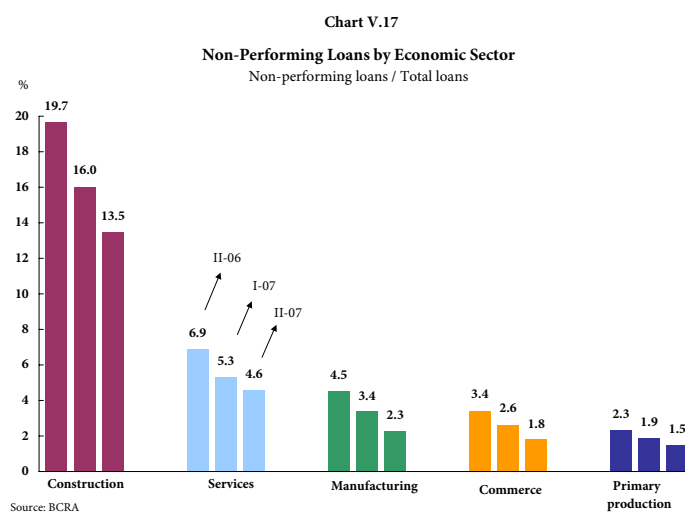
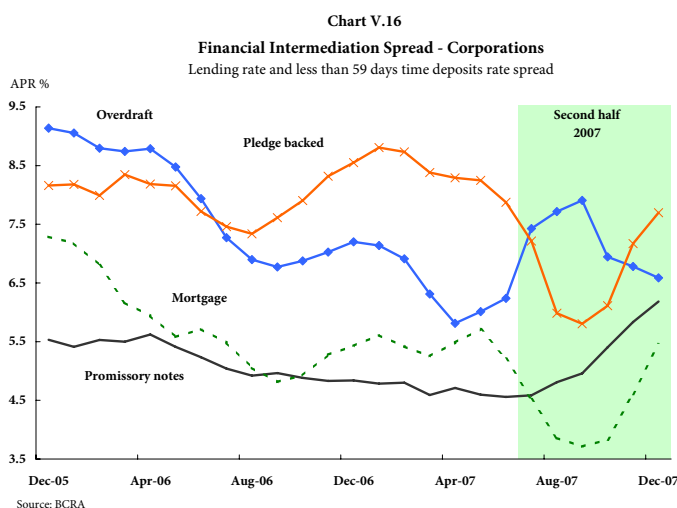
could affect the repayment capacity of some sectors, particularly those dependent on external demand.

Corporations

In line with its low credit risk, banks have increased their exposure to the corporate sector

Over the course of 2007 the financial system continued to increase its exposure to the corporate sector. Lending to companies reached 23.5% of netted assets by the end of 2007, 2.7 p.p. above the mid-year level. The increase in exposure to the corporate sector took place despite growing turbulence on international financial markets that resulted in certain volatility and an increase in interest rate spreads in the second part of 2007 (see Chart V.16). In this context, company economic and financial position was strengthened by an outstanding economic performance in 2007, combined with moderate levels of indebtedness and favorable prospects for 2008 (see page 27). On the basis of this outlook, banks have continued to improve their position in relation to the credit risk represented by this sector.

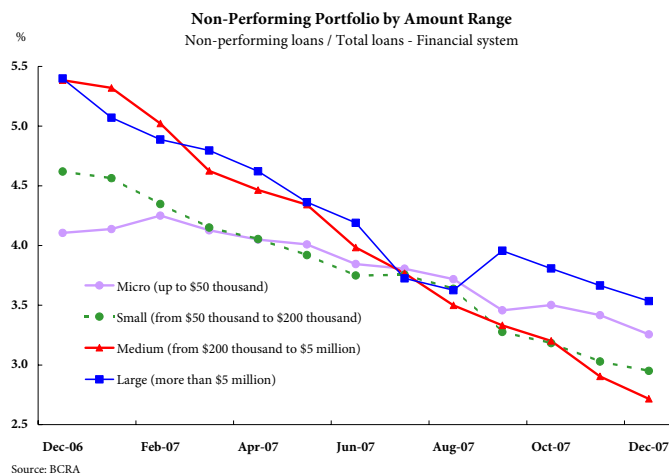
Growing bank exposure to companies continued to take place in a context of declining delinquency. In the second half of 2007 non-performing loans to companies dropped 0.9 p.p. to 3.2%, with widespread improvement across all productive sectors. The largest falls in non-performance ratios took place in construction and manufacturing industry, while commerce and primary production again recorded the best performances (see Chart V.17).



Over the course of the year non-performing loans to companies fell in all segments classified by residual loan amount. During the second half of 2007 the reduction in the non-performance ratio was similar for all credit sizes (see Chart V.18). Credits with residual stock for up to \$200 thousand (mainly associated with SMEs), continue to show adequate performance levels. Corporate sector non-performance continues to be concentrated in the large debtor segment: if the 5 largest corporate debtors in a non-performing situation are excluded, delinquency in bank corporate portfolios would total 1.8% of such loans at the end of 2007.

All credit lines granted for companies have reduced their non-performance. Mortgage loans and pledge-backed loans taken by companies recorded the largest improvement in their credit quality in the second half of 2007, ending the year with delinquency levels of 5.8% and 2.3%, respectively. Current account overdraft again

Chart V.18



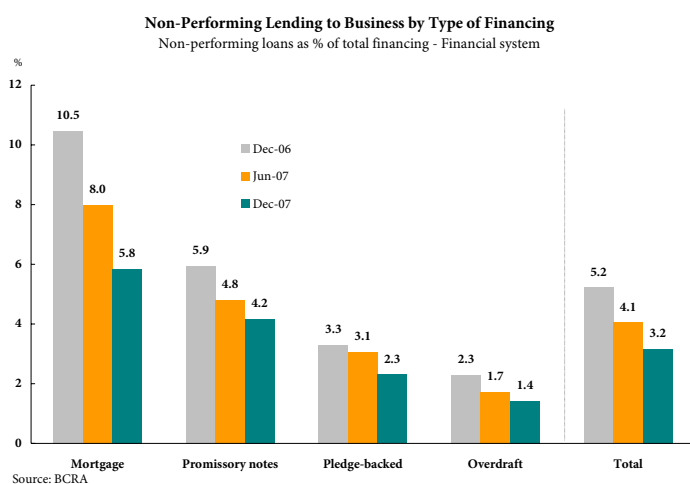
showed the lowest delinquency level, with a ratio of 1.4% (see Chart V.19).

Credit granted to companies more than three years ago accounts for over half of all non-performance

Corporate credit delinquency is largely explained by loans granted until 2004, while loans granted subsequently show a better performance. At the end of 2007 loans granted over 3 years ago recorded a delinquency ratio of almost 17%. Although they only account for 10% of total lending to companies, these lines account for more than half total corporate non-performance at the end of 2007 (see Chart V.20).

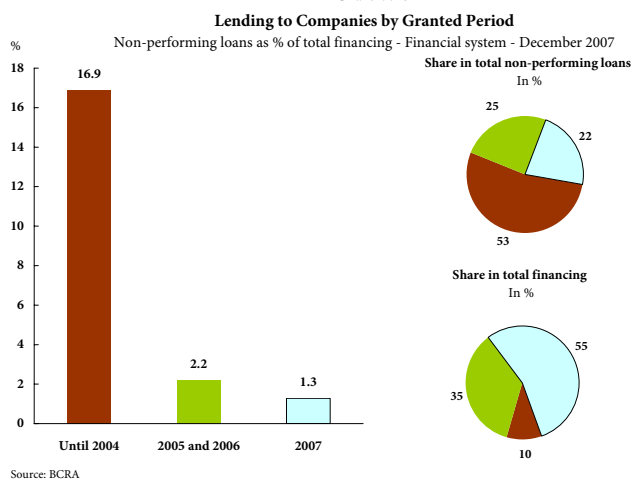
It is expected that the financial system will continue to increase its exposure to the corporate sector in 2008, in a context of reduced credit risk driven by the sector's good payment capacity

Chart V.19



In line with the trend observed in recent years, in 2008 companies are expected to increase their bank borrowing. Manufacturing (the most significant sector in bank lending to companies) is likely to be one of the drivers behind this dynamic (see Chart V.21). In view of widespread economic growth prospects and moderate borrowing levels, corporate payment capacity will be strengthened in 2008. These expectations could however be affected by greater volatility in international financial markets and its potential effect on lending interest rates. In turn, any scenario involving a reduction in global growth, with a risk of recession in some developed economies, could impact on the external demand of certain sectors, influencing their payment capacity. Nevertheless, it is expected that banks will in general maintain a solid position in relation to the credit risk represented by the corporate sector in 2008.

Chart V.20



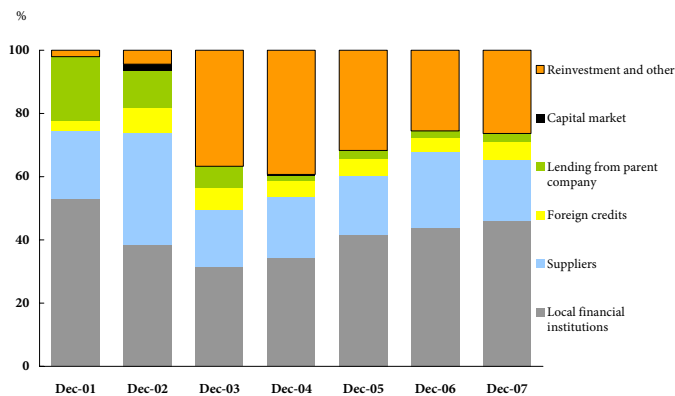
Households

Although still at satisfactory levels, signs have appeared of increased credit risk-taking in household credit

In line with the trend seen in the two previous years, the financial system has continued to increase its exposure to households during 2007. Lending to families rose to 17% of bank netted assets, an increase of 4.4 p.p. in 2007. As a result, lines targeting this sector continue to gain share of lending to the private sector, reaching 42% of the total at the end of 2007, 3.5 p.p. above the previous year's levels.

Improvements in disposable income from wage increases and higher employment (mainly in the formal

Chart V.21
Expected Sources of Funds for Corporations
Outlook for the first quarter of 2008

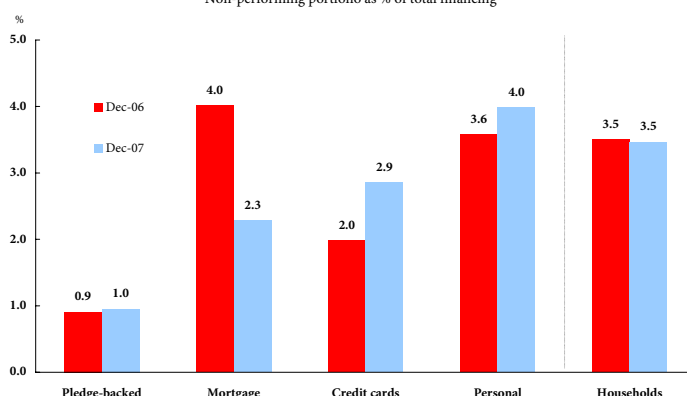


Source: EMI - Qualitative information - INDEC

segment), added to low but climbing indebtedness levels, contributed to the payment capacity of the sector (see page 31). In this situation, household non-performance ended the year at a relatively low level in historical terms (3.5% of loans), similar to the level one year earlier.

The performance of the various credit lines was uneven over the course of 2007. While delinquency ratios for the lines showing the greatest dynamism, personal loans and credit card financing (mainly associated with consumer credit) evidenced a slight increase in delinquency over the last year, the quality of the mortgage portfolio reported significant improvement (see Chart V.22). Mortgage non-performance is mainly explained by lines taken prior to 2005 (which although representing somewhat more than one quarter of outstanding loans in this group, account for 57% of its delinquency) (see Chart V.23).

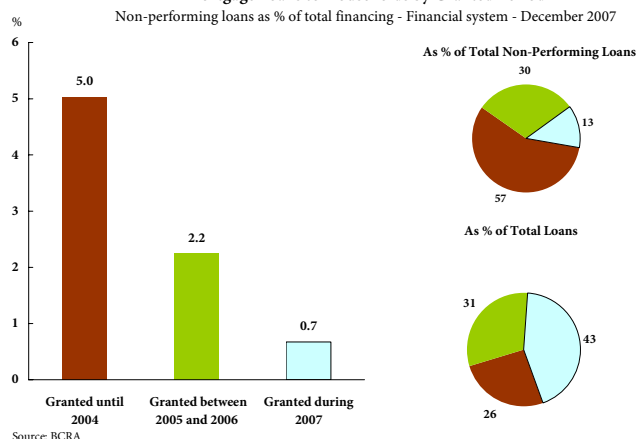
Chart V.22
Non-Performing Lending to Households by Type of Line
Non-performing portfolio as % of total financing



Source: BCRA

On the basis of the performance of the various credit lines, personal loans and credit card lending recorded the greatest relative non-performance levels at the end of 2007. Together, these lines associated with household consumption recorded a non-performance ratio of 3.6% of such loans at the end of 2007, 0.6 p.p. more than one year earlier. This increase in the delinquency ratio resulted from the fact that although household consumer loans increased 59% in 2007, the nominal amount of the non-performing portfolio almost doubled (see Chart V.24). Private retail banks with a nationwide scope accounted for 0.4 p.p. of the total increase in this ratio, while non-bank financial entities and specialized retail banks showed the greatest relative increase (see Chart V.25).

Chart V.23
Mortgage Loans to Households by Granted Period
Non-performing loans as % of total financing - Financial system - December 2007

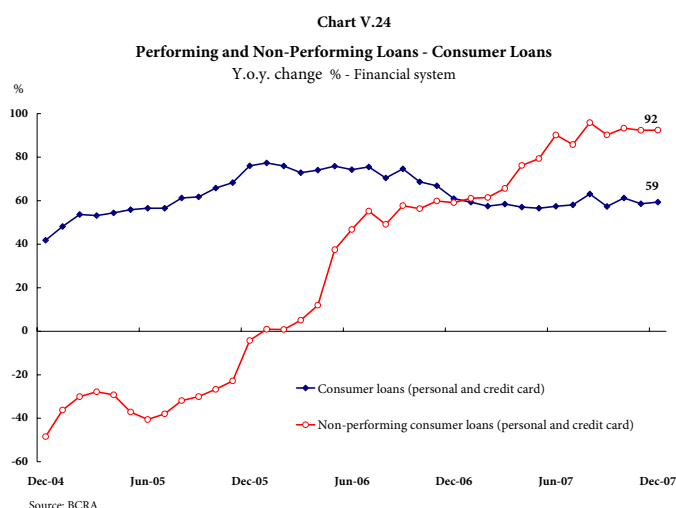


Source: BCRA

Growing participation by consumer credit, both in bank lending (27% of private sector lending, 3 p.p. more than at the end of 2006) and in total lending to the household sector (64% of household lending lines, 2 p.p. more than one year earlier) combined with a slight worsening in the quality of this credit portfolio, mean that the increase in household credit risk is closely associated with this type of financing.

It is estimated that loans originated in 2005 and 2006 granted to debtors incorporated to the financial system in that period have shown a greater increase in their delinquency ratio. Although they represent just 16% of total household consumer credit, they account for 38% of the total delinquency of this group.

Together with growth in household consumer lending, there has been further securitization of this credit portfolio. This enables advantage to be taken of the growing



complementation between the financial system and the capital market, allowing both a reduction in this credit risk source for banks and the obtaining of liquid funds. Financial trust issuance by banks using consumer loan portfolios as underlying assets represented 88% of total trust issuance by financial entities in 2007, for an amount of \$2.1 billion, 7% of household consumer credit stock at the end of 2007.

The dynamism of credit lines mainly associated with household consumption that has been recorded in recent years is a common pattern in most of the financial systems in the region. Despite the solid macroeconomic fundamentals seen in Latin American countries, in some cases an incipient deterioration has begun to be seen in this portfolio. Given the magnitude of the phenomenon, there is at present a consensus on the need to monitor such lending more closely, to ensure the framework of financial stability is maintained.

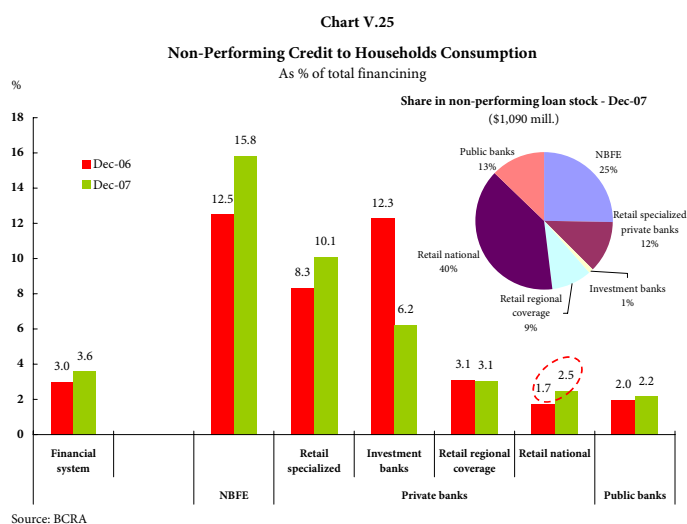
Given the high profits of household lending, the financial system is expected to continue to increase its exposure, in the context of an improved economic and financial position for the sector, although assuming an increased relative risk

It is expected that the financial system will further increase its lending to households, a sector that will continue to increase its financing through retail stores (especially in the case of the purchase of household appliances) and in the informal sector. In this context of increased household indebtedness, macroeconomic conditions lead to expectations of an expansion in income and employment, which would preserve the sector's payment capacity. Nevertheless, any growing volatility on international financial markets could impose a greater variability on floating interest rates lending at rollover times, which would increase the risk of lending to households, particularly in the case of credits more closely linked to the consumer segment.

V.3. Currency risk

Banks have recorded a moderate increase in their exposure to foreign currency risk

In line with a greater foreign currency position, over the course of 2007 the financial system gradually increased its exposure to this risk, in the context of a slight rise in the volatility of the nominal peso-dollar exchange rate at the beginning of the second half of the year. This risk faced by banks continues to be restricted by the regulatory framework imposed by the Central Bank: credit in foreign currency may only be granted to borrowers with



income that is positively correlated with the exchange rate, and such lines must be funded by deposits in the same currency.

The financial system foreign currency position³² totaled almost US\$3.6 billion at the end of 2007, above the level of last June. Foreign currency mismatching between assets and liabilities totaled US\$2.7 billion at the close of 2007, almost US\$500 million below the level registered in mid-year and in line with the figure at the end of 2006.

In a scenario of growing turbulence on international financial markets, private sector deposits in foreign currency posted an increase in the second half of the year (approximately US\$1.4 billion), driven mainly by time deposits (which rose by US\$900 million). This movement was in part a reflection of deposits made by the private sector following the amortization of sovereign debt in dollars, paid to companies and households. The increase in deposits in dollars was partly offset by redemptions of corporate bonds in dollars in the context of liability restructuring processes by certain financial entities.

Growth in the volume of resources assigned to export financing continued to be behind the rise in foreign currency assets in the second half of 2007. In addition, in view of the greater international volatility in the second half of 2007, various financial entities increased their net purchases of foreign currency futures, encouraging growth in the overall open position.

As a result, the foreign currency position reached 30.4% of net worth at the end of 2007, almost 4 p.p. above the level at mid-year. Foreign currency mismatching stood at 23% of net worth at the end of 2007 (see Chart V.26), approximately 5 p.p. less than in mid-2007, in the context of steady expansion in banks solvency.

Greater uncertainty on international financial markets was reflected in a moderate increase in the peso-dollar exchange rate in the third quarter of the year, a trend that declined towards the end of 2007, in line with the measures implemented by the Central Bank (see Page 9).

Whereas public banks and non-bank financial entities maintained the reduction in the mismatching of their foreign currency items (see Chart V.27), over the course of 2007 private national and foreign banks posted an increase. Although public banks continue to show a foreign currency item mismatching of 59% of their net

Chart V.26
Foreign Currency Mismatch Risk Exposure

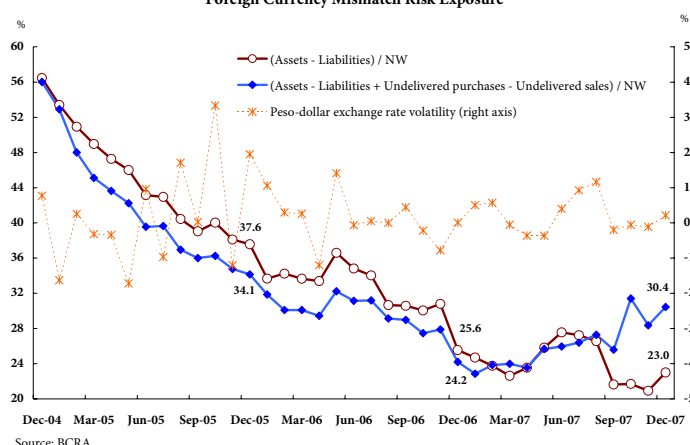
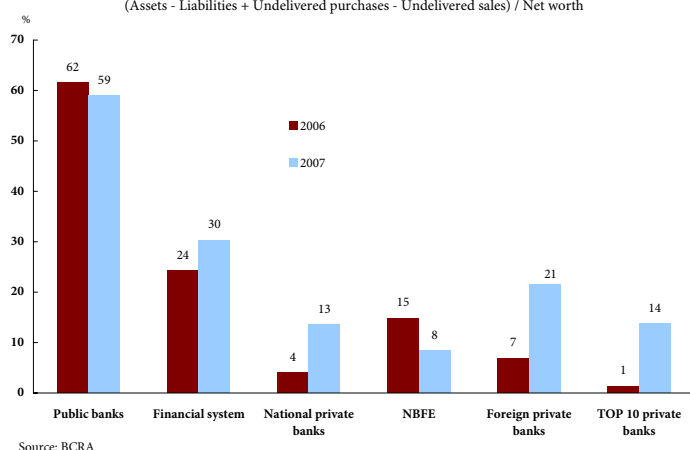


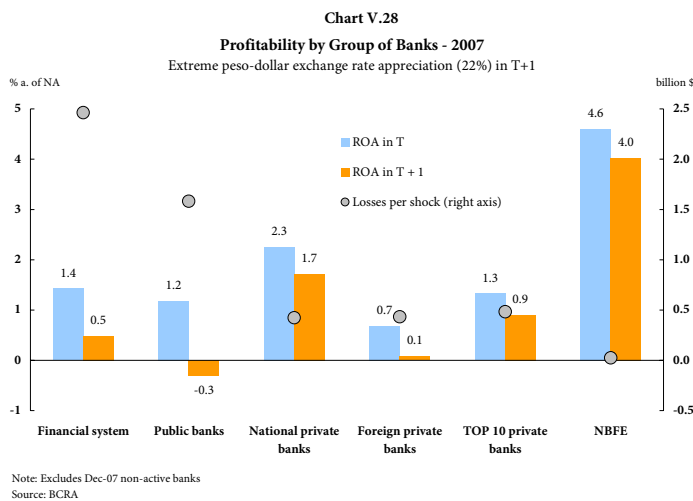
Chart V.27

Open Position in Foreign Currency
(Assets - Liabilities + Undelivered purchases - Undelivered sales) / Net worth



³² Includes foreign currency asset, liability and term purchases and sales of foreign currency in off-balance sheets accounts.

worth (significantly higher than that of the remaining groups of banks), there was a drop of almost 3 p.p. over the year. From a moderate level, the increase in mismatching recorded by domestic and foreign private banks (9 p.p. and 14 p.p. respectively), has been driven by net growth in foreign currency futures contracts. During 2007 hedge instrument markets to provide cover against foreign currency mismatching risk continued to deepen (see page 9).



All bank groups continue to pass with ease the stress tests to which they were submitted based on shocks generated by the peso-dollar exchange rate. As in recent periods, given the active position in foreign currency items shown by banks, tests were made of their strength in a situation of extreme exchange rate appreciation. The different groups of banks were subjected to an extreme nominal appreciation³³, to study its impact on the profitability and solvency achieved during 2007³⁴.

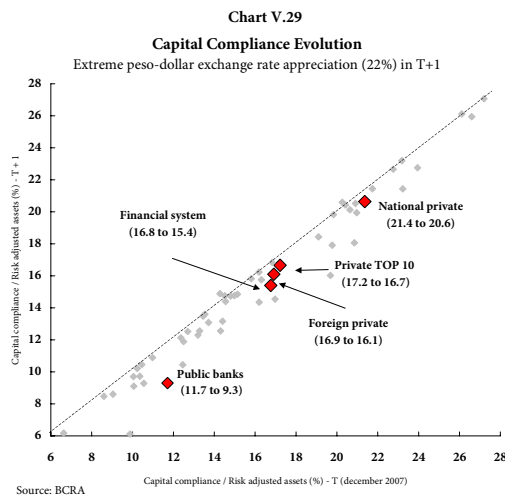
The group with the greatest exposure to foreign currency risk, public banks, would be the most affected by such a scenario involving the appreciation of the peso-dollar exchange rate. Its profitability would drop to slightly negative figures on the basis of the profitability structure observed in 2007 (see Chart V.28), although its capital compliance would remain above 9% (see Chart V.29). Foreign banks would be the next most affected entities, although they would continue to record profits and their overall capital compliance would remain close to 16%. The limited mismatching recorded by private national banks would be reflected in a slight drop in their profitability and solvency levels.

Looking forward to 2008, it is expected that all bank groups will maintain a limited exposure to foreign currency risk, mainly as a result of the moderate levels of volatility expected to be shown by the exchange rate, in the context of gradual consolidation in the solvency of the sector.

V.4. Interest rate risk

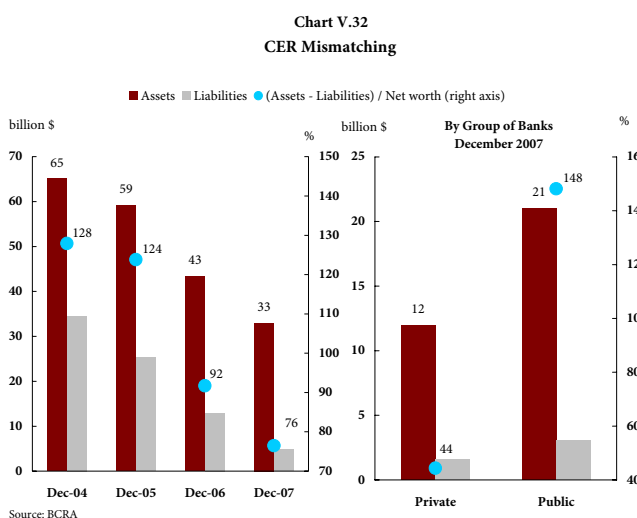
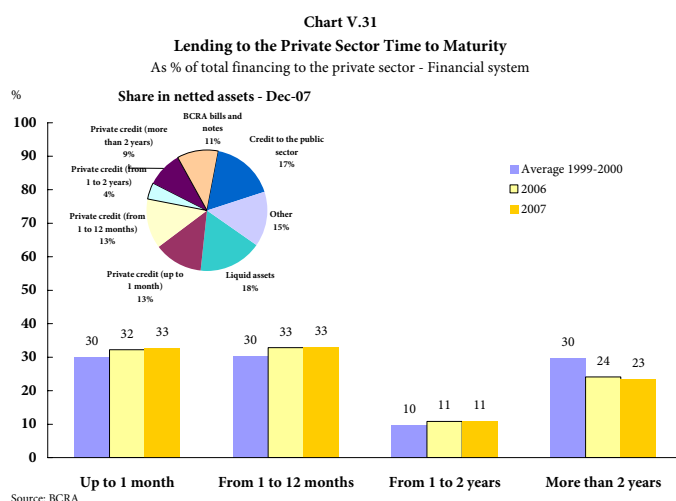
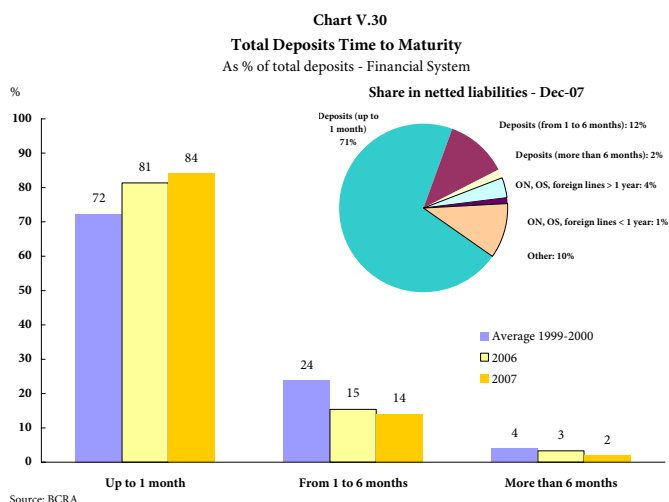
The financial system is gradually reducing its exposure to interest rate risk

Extending the trend of recent years, banks reduced their exposure to interest rate risk in 2007 mainly due to the drop in their holdings of public sector assets. This was basically because public sector assets have a longer relative maturity and offer fixed interest rates.



³³ Equivalent to a reduction of 22% in the peso-dollar exchange rate.

³⁴ No second-round effects were analyzed.



Nevertheless, certain elements offset the positive developments from the reduction in exposure to the public sector. On the one hand, there was a shortening of average deposit maturity (see Chart V.30). On the other, credits to the private sector maintained their residual term structure steady (see Chart V.31) at the same time as they increased their participation in assets (see page 47). In addition, the turbulence seen on international financial markets in the second half of the year led some financial entities to postpone new corporate bond issues. The domestic context of gradually rising interest rates, added to the impact locally of international volatility, generated some materialization of interest rate risk.

During the course of the year banks continued to reduce their exposure to the real interest rate originated in the balance sheet mismatching of CER-adjusted items (at fixed interest rates). The mismatching between CER-adjusted asset and liability items dropped by 16 p.p. of net worth during the year, to 76% (see Chart V.32). Whereas private banks achieved a significant reduction in this risk (so that the balance-sheet CER mismatching dropped to less than half its net worth), public banks continued to show a high level of mismatching.

In addition to the sustained strengthening of financial system solvency, this reduction in balance-sheet mismatching from CER was explained by a fall in assets subject to adjustment (from the amortization and sale of government and Central Bank securities subject to adjustment), which was partly offset by a drop in adjustable liabilities (from pre-payment of rediscounts and a drop in adjustable time deposits).

The Central Bank continues to work to achieve sufficient market liquidity to enable efficient coverage of the interest rate risks. In early 2008 the Central Bank created an interest rate swap market³⁵ in which it will participate for up to a maximum amount of \$12.0 billion, placing an additional tool at the disposal of banks to improve their coverage of this risk, which acquires particular relevance in the context of a potential lengthening of private sector lending maturity.

Growing volatility on international financial markets could lead to some materialization of interest rate risk in 2008

In 2008 it is expected that financial system balance-sheet mismatching from CER-adjusted items will continue to decline gradually, based on amortizations and sales of adjustable public sector loans and securities. Neverthe-

³⁵ Communication "A" 4776.

less, domestic capital market volatility could lead to deterioration in security trading conditions. Furthermore, as far as international financial market turbulence is translated into higher domestic interest rates, there could be some materialization of interest rate risk, given the difference in the sensitivity of bank assets and liabilities in the face of changes in interest rates.

V.5. Market risk³⁶

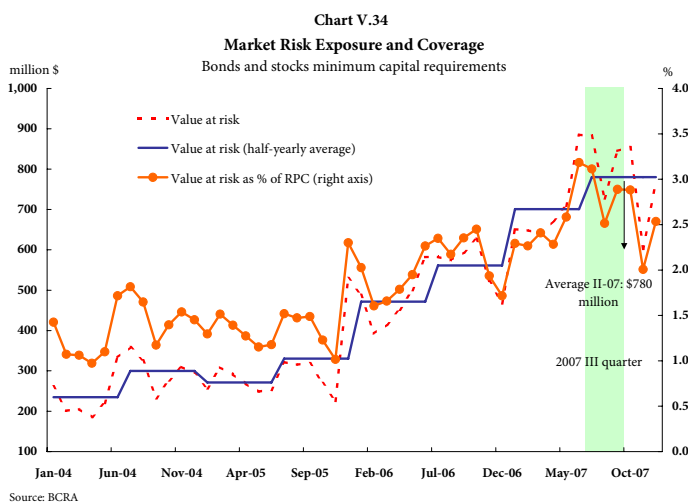
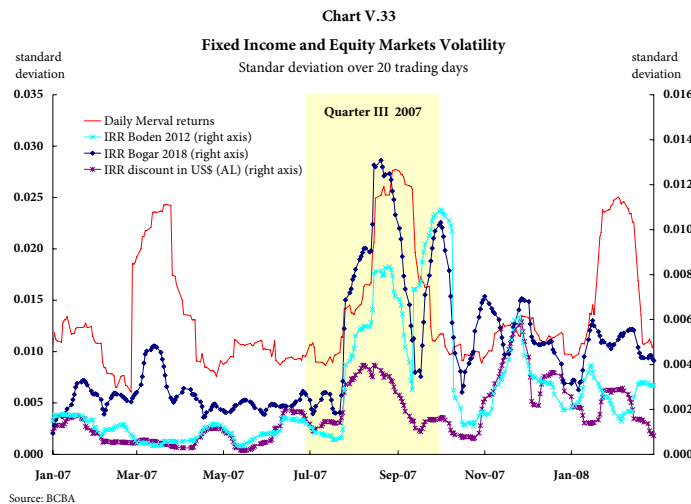
Measures implemented by the Central Bank moderated the materialization of market risk in the period

In the second half of 2007 there was an increase in the volatility of bond and stock markets (see Chart V.33) that led to some materialization of the market risk faced by banks. Measures implemented by the Central Bank succeeded in softening the impact of turbulence on international financial markets. Specifically, as 95% of exposure to market risk continues to be accounted for by government securities, Central Bank policy aimed at ensuring that short-term fluctuations in bond prices did not affect the routine operations of financial institutions. To do so, securities issued by the Central Bank were allowed to be recorded in investment accounts or held for sale accounts. Out of their total Central Bank security portfolios, towards the end of 2007 banks recorded \$4.9 billion in investment accounts (15% of the total) and \$1.8 billion in available for sale accounts (6% of the total). In the case of government bonds, only \$600 million were booked as available for sale.

As a result, in the context of international financial turbulence, market risk exposure in terms of regulatory capital posted a slight increase towards the end of the third quarter (see Chart V.34), dropping later by the end of the year as volatility on the domestic capital market declined.

A situation of growing international turbulence could result in some materialization of market risk in 2008

Confronted by rising international financial market volatility, it is expected that the financial system will have to face greater market risk in 2008. Nevertheless, this trend will be attenuated by measures introduced by the Central Bank concerning the valuation of securities held in available for sale and investment accounts.



³⁶ In this section, market risk exposure includes the balance sheet impact of price volatility associated with both bonds and shares.

VI. Solvency

Summary

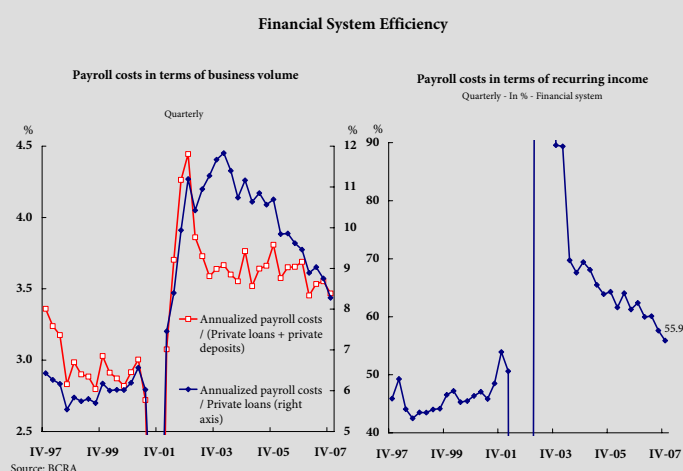
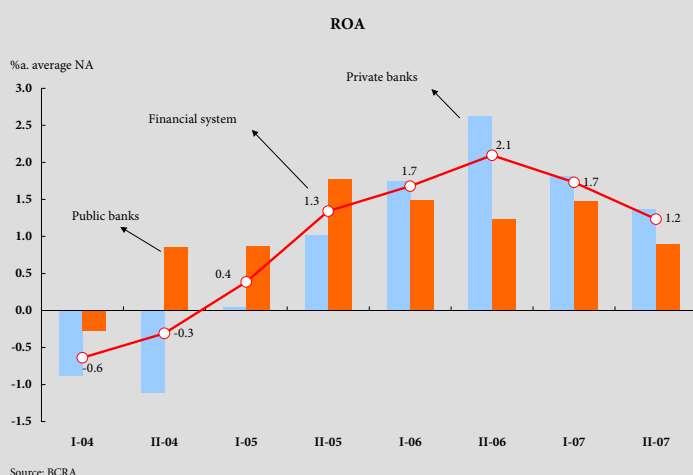
In a context of growth of financial intermediation with the private sector with a limited credit risk exposure, the financial system ended its third consecutive year with positive results and book profits widespread among the financial institutions during 2007. Nevertheless, financial system profit is still less than the rates recorded in other emerging economies.

The financial system profits during the second half of 2007 were partly reduced by the larger operating costs, due to the increase of employment and wages in the sector and the lower results from securities in a volatile context on the international capital markets. However, the sustained growth of recurring revenues partly cushioned these effects. Specifically, the interest results continued their expansion driven by the increase of credit to the private sector in a framework of gradually higher interest rates and low and stable loan loss provisions. On the other hand service results increased their share in the sources of bank revenues, with more momentum observed in income from loans. These improvements in the revenue sources boosted progress in the efficiency to obtain results, although there is still room for improvement.

The context of volatility on the domestic capital markets was reflected by a higher variation of banking profits during the second half of 2007. In this scenario, the Central Bank adopted a number of measures that tend to cushion the impact of short term changes in security prices on the normal development of banking activity.

The positive earnings, and to a lesser extent the capital contributions, continued making the sector solvency more robust in 2007. The banking system exhibited adequate levels of capital compliance during the year, exceeding the domestic minimum requirements and international recommendations.

Due to the positive prospects for financial intermediation levels in 2008, the profit rate of the sector is expected to remain stable, which together with possible capital injections will continue to strengthen the bank solvency, allowing for a sustained growth and to properly face possible shocks. In so far as the international financial turbulence deepens its negative effect on the local capital markets, some volatility of financial system profits might be seen. The growing competition may also add pressure towards reducing bank spreads, which is correlated with the endogenous increase in solvency.



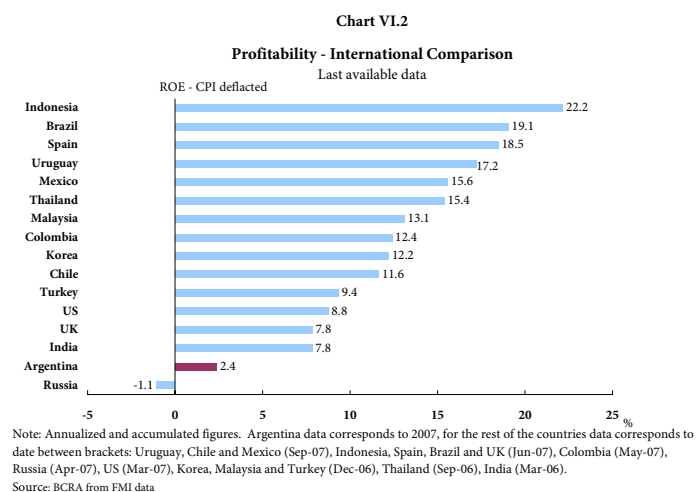
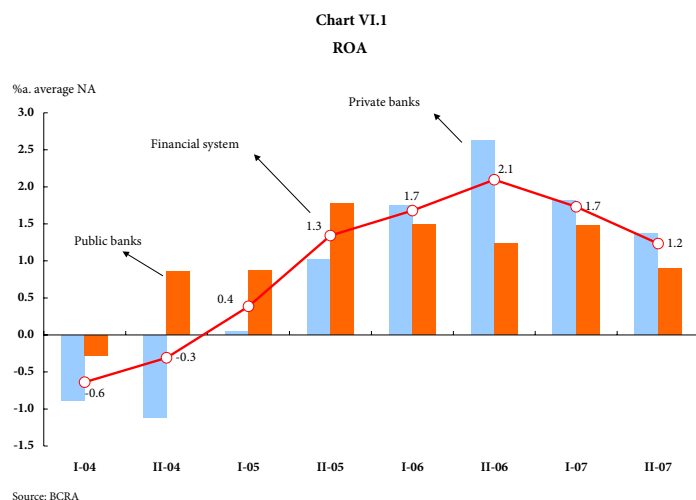


Table VI.1
Profitability Structure: Financial System
In annualized terms - As % of average netted assets

	93-00	2004	2005	2006	2007	II-06	I-07	II-07
Financial margin	6.1	3.1	4.6	5.8	5.7	5.9	5.7	5.7
Net interest income	4.9	0.9	1.5	1.8	2.2	1.9	2.0	2.3
CER y CVS adjustments	0.0	1.0	1.5	1.3	1.0	1.1	1.1	0.9
Gains on securities	0.8	1.0	1.2	2.2	2.0	2.6	2.1	1.8
Foreign exchange price adjustments	0.0	0.4	0.4	0.4	0.5	0.3	0.4	0.6
Other financial income	0.3	-0.2	0.1	0.1	0.1	0.1	0.1	0.1
Service income margin	3.5	2.0	2.3	2.7	3.1	2.9	2.9	3.3
Operating costs	-6.7	-4.1	-4.6	-5.1	-5.5	-5.3	-5.2	-5.8
Loan loss provisions	-2.2	-0.8	-0.6	-0.5	-0.7	-0.5	-0.6	-0.8
Adjustments to the valuation of gov. securities (*)	-	-0.2	-0.2	-0.3	-0.3	-0.3	0.0	-0.6
Tax charges	-0.5	-0.3	-0.4	-0.5	-0.6	-0.5	-0.5	-0.6
Amortization payments for court-ordered releases	-	-0.9	-0.9	-1.1	-0.7	-1.5	-0.8	-0.6
Other	0.7	0.8	0.8	1.2	0.8	1.6	0.8	0.9
Monetary results	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income tax	-0.3	-0.1	-0.3	-0.3	-0.4	-0.2	-0.5	-0.3
ROA	0.5	-0.5	0.9	1.9	1.5	2.1	1.7	1.2
ROE	3.4	-4.2	7.0	14.3	11.0	15.6	12.8	9.3
Adjusted ROA (**)	-	0.7	2.0	3.4	2.5	3.9	2.6	2.4

(*) Com. "A" 3911 and complementary communications. (**) Excluding amortization of payments for court-ordered releases and the effects of Com. "A" 3911 and complementary communications.

Source: BCRA

VI.1. Profitability

Despite the unfavorable international context the financial system recorded positive book profits again

In a framework of a persistent expansion of financial intermediation with the private sector, banking consolidated its pattern of positive earnings, to therefore close its third consecutive year with profits (see Chart VI.1). During 2007 the financial system thus attained a 1.5% ROA and an 11% ROE, with less dispersion seen in bank profits. The book profits earned during the year were spread wide to 86% of the financial entities (96% of the total assets of the financial system). However, the profit rate of domestic banking is still lower than seen in other emerging and developed economies (see Chart VI.2) to become a dimension of the financial system which still has to show progress in coming years together with the growth of financial intermediation in a favorable macro-economic context.

The positive results of the financial system during the year were less than those seen in 2006 (by 0.4 p.p. of assets) due fundamentally to its performance during the second half of the year (see Table VI.1). Specifically, during the second half of 2007 the profit rate of the financial system was reduced to 1.2%a. of assets, partly due to the higher operating costs (because of the increase of employment and wages in the sector) and the impact of the international financial volatilities that affected the third quarter earnings from government securities. The persistent growth of recurring revenues (interest and service results) partly cushioned these effects.

Together with the decline in profitability during the second half of 2007, an increase of the volatility of the financial system results was seen. This change was mostly explained by the greater variability of the gains on security (see Chart VI.3). The context of price fluctuations of the major securities held by banks marked to market during the second half of the year, explained this change.

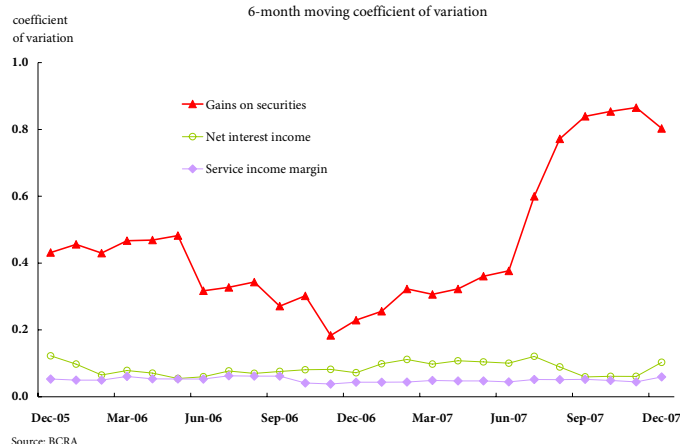
Net interest income gained share in the financial margin of the banking system

During the second half of 2007 the financial margin of the banking system remained stable compared to the previous period. The driver was fundamentally the increase of the interest results, and to a lesser extent the exchange rate differences, changes that were partly offset by the fall in profits from holding and trading securities and from CER adjustments (see Chart VI.4).

Chart VI.3

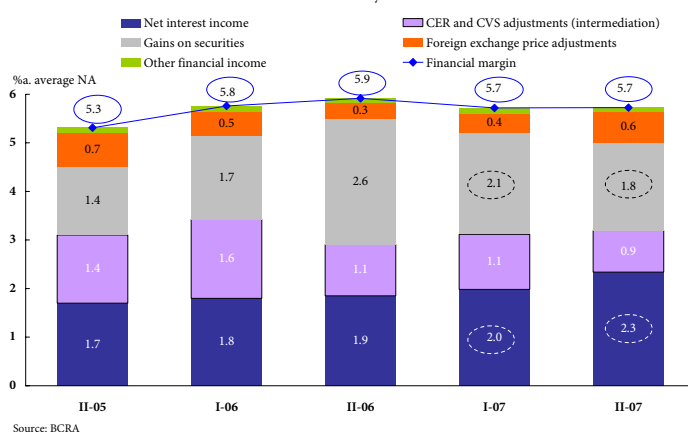
Volatility of the Main Components of Profitability Structure

6-month moving coefficient of variation



The interest results were 2.3%a. on assets in the second half of 2007, 0.3 p.p. higher than the period before, thus extending the rising trend driven by the growth of financial intermediation with the private sector. In this manner, in 2007 these results exhibited an increase of 0.4 p.p. of assets to 2.2%. The increase in credit to the private sector in a context of rising lending rates, particularly, led to an expansion of the interest charged on loans by 0.9 p.p. of assets, to 5.5%a. in the second half of the year (see Chart VI.5). This increase was more than the expansion of the interest paid on deposits (0.4 p.p. of assets) which was 2.6%a. in the second half of the year. On the other hand, as a sign of the gradual reduction of the financial system's CER mismatch and the slower rate of growth that this coefficient recorded, in the second half of the year the accrual of CER adjustments dropped by 0.2 p.p. to 0.9%a. of assets.

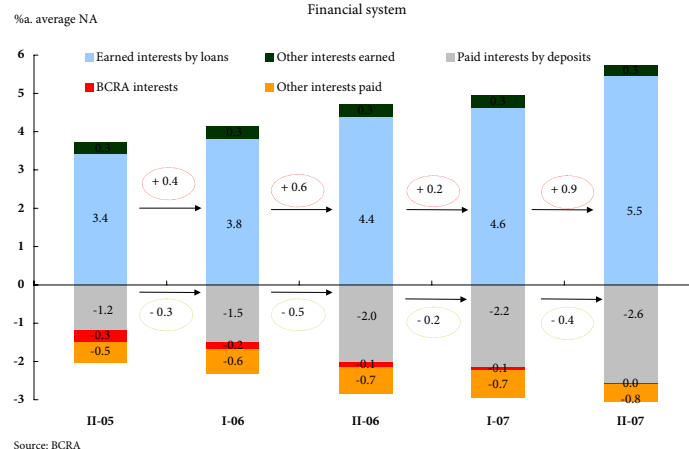
Chart VI.4
Financial Margin Composition



As a consequence of the impact of the international turbulence on the prices of domestic financial assets, the bank earnings from securities exhibited a fall during the period. This heading of the bank profit and loss statement was thus 1.8%a. of assets, or 0.3 p.p. less than during the first half of the year. Facing a growing volatility recorded by the financial markets during August the Central Bank adopted a number of measures³⁷ which managed to cushion the effects of the short changes in the yields on securities on the financial institution results.

In a context of the depreciation of the peso against the dollar (the peso-US dollar exchange rate increased \$0.06 per dollar in the second half of 2007), the exchange rate difference results expanded 0.2 p.p. of assets to 0.6%a., despite the smaller foreign currency mismatch that the banking system is recording.

Chart VI.5
Net Interest Income



With the growth of financial intermediation, the service revenues consolidated their upwards trend

The net service revenues totaled 3.3%a. of assets during the second half of 2007, which was 0.4 p.p. higher than the previous period. The income related to collecting deposits continued explaining the largest share of the service results, although the funds associated with granting loans to the private sector were the most dynamic segment in 2007 (see Chart VI.6). The consolidation of the net service revenues maintained its momentum at both public and private banks.

The sustained increase in loans to the private sector is happening in a context of limited credit risk, which al-

³⁷ Communication "A" 4698 and Communication "A" 4702.

Chart VI.6
Service Income Margin
Financial system

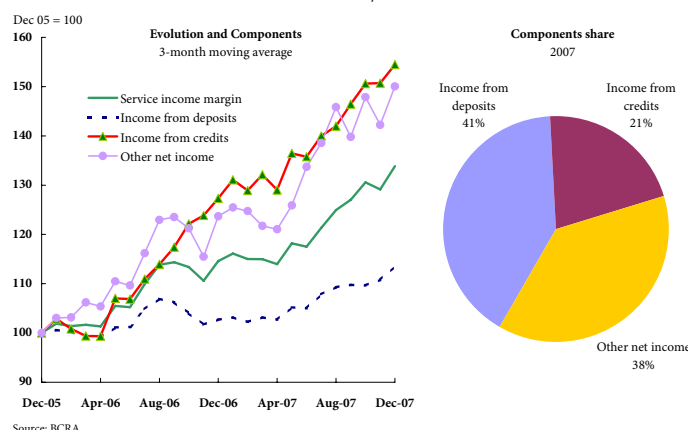


Chart VI.7
Financial System Efficiency

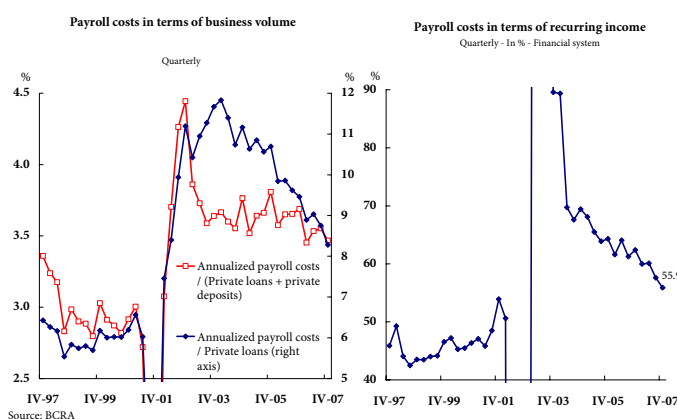


Table VI.2

Profitability Structure: Private Banks
In annualized terms - As % of average netted assets

	93-00	2004	2005	2006	2007	II-06	I-07	II-07
Financial margin	6.6	2.9	4.3	5.9	5.8	6.1	5.9	5.7
Net interest income	5.1	1.0	1.7	2.1	2.7	2.2	2.3	3.1
CER y CVS adjustments	0.0	0.8	1.0	0.6	0.4	0.5	0.5	0.3
Gains on securities	1.1	0.8	1.0	2.4	1.9	2.8	2.3	1.4
Foreign exchange price adjustments	0.0	0.6	0.5	0.6	0.6	0.5	0.5	0.8
Other financial income	0.5	-0.3	0.1	0.2	0.1	0.2	0.2	0.1
Service income margin	3.9	2.4	2.7	3.4	3.8	3.5	3.6	3.9
Operating costs	-7.3	-4.6	-5.1	-5.9	-6.3	-6.1	-6.0	-6.6
Loan loss provisions	-2.1	-0.9	-0.6	-0.6	-0.8	-0.6	-0.7	-0.8
Adjustments to the valuation of gov. securities (*)	-	0.0	-0.2	-0.1	-0.1	-0.1	0.0	-0.1
Tax charges	-0.6	-0.3	-0.4	-0.6	-0.7	-0.6	-0.7	-0.8
Amortization payments of court-ordered releases	-	-1.0	-1.0	-0.9	-0.9	-1.1	-0.9	-
Other	0.6	0.7	0.9	1.2	1.0	1.6	0.9	1.1
Monetary results	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income tax	-0.4	-0.2	-0.2	-0.3	-0.2	-0.4	-0.3	-0.2
ROA	0.7	-1.0	0.5	2.2	1.6	2.6	1.8	1.4
ROE	5.0	-8.1	4.1	15.3	10.9	18.0	12.3	9.6
Adjusted ROA (**)	-	0.2	1.6	3.2	2.6	3.7	2.8	2.4

(*) Com. "A" 3911 and complementary communications. (**) Excluding amortization of payments for court-ordered releases and the effects of Com. "A" 3911 and complementary communications.

Source: BCRA

lows for historically low levels of arrears to be recorded (see Page 59) and low loan loss provisions. Specifically, the charges accrued were 0.8%a. of assets in the second half of 2007, increasing 0.2 p.p. from the first half of the year, partly led by the larger share of credit to the private sector in banking assets. In this manner, loan loss provisions were seen to be at similar levels to the year before (only 2% of private sector loans).

Although there is still room for growth, the financial system continued recording efficiency improvements

The growth of economic activity in recent years was reflected by larger volumes of financial intermediation, a situation which in turn was reflected by obtaining increasing recurring revenues. Likewise, the sound perspectives of the banking system have led to a gradual expansion of its operating structure, which together with the recovery of wages in the sector increased the operating costs. Specifically, management spending of the financial system saw an increase of 0.6 p.p. of assets in the second half, to 5.8%a. in the second half of the year.

In this context, the efficiency indicators of the financial system are exhibiting continuous progress, although they have not yet achieved their pre-crisis levels (see Chart VI.7). Particularly, when the outlays on staff relative to the business volume are considered, progress in recent years is seen. Likewise, the sum of interest revenues and service results has been growing at a faster pace than expenditure on staff during the past three years. Therefore, there is gradual progress in the sector's efficiency, which allows it to face the pressure towards reducing the banking spreads.

Investment banks were affected most by the volatilities on the international financial markets

During the second half of 2007 private banks exhibited a ROA of 1.4%a. (see Table VI.2), which was 0.4 p.p. less than recorded in the first half, and a ROE of 9.6%a.. In line with what was seen at a systemic level, the falling profits at the private banks was fundamentally due to the fall of results from securities and the increase in operating costs. These changes were partly offset by the larger net interest revenues and service results.

Of the private financial entities, the investment banks were those most affected by the recent swings on the international financial markets. These left a balance of a 2.7 p.p. fall of assets (to 3.6%a.) in the earning from security holdings and trading, which led this group of banks to accrue accounting losses in the second half of 2007 (ROA of -0.3%a.) (see Table VI.3). Meanwhile, the

Table VI.3
Profitability Structure by Type of Bank
In annualized terms - As % of average netted assets

	Private						
	Retail					Investment (**)	
	I-07	II-07				I-07	II-07
	Total	Total	National coverage	Regional coverage	Specialized		
Financial margin	5.9	5.7	5.2	7.3	13.9	6.6	5.3
Net interest income	2.5	3.2	2.9	3.9	11.2	-1.0	0.4
CER y CVS adjustments	0.6	0.4	0.4	0.1	-0.1	0.0	0.0
Gains on securities	2.1	1.3	1.1	2.4	1.7	6.3	3.6
Foreign exchange price adjustments	0.5	0.7	0.7	0.5	1.7	1.2	2.0
Other financial income	0.2	0.2	0.1	0.4	-0.6	0.0	-0.7
Service income margin	3.7	4.0	4.1	3.4	6.9	2.3	3.7
Operating costs	-6.0	-6.5	-6.4	-6.5	-14.0	-7.0	-7.1
Loan loss provisions	-0.7	-0.9	-0.8	-0.6	-4.5	-0.6	-0.2
Adjustments to the valuation of gov. securities (*)	0.0	-0.2	-0.1	-0.2	0.0	0.0	-0.1
Tax charges	-0.7	-0.8	-0.8	-0.6	-1.0	-0.4	-0.6
Amortization payments of court-ordered releases	-1.0	-0.8	-0.9	-0.2	-0.3	0.0	0.0
Other	0.9	1.1	1.0	1.5	2.2	0.8	-0.6
Monetary results	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income tax	-0.2	-0.2	-0.1	-0.5	-1.2	-1.0	-0.7
ROA	2.0	1.6	1.1	3.6	1.9	0.7	-0.3
ROE	14.5	11.6	8.8	21.9	9.7	3.1	-1.1
Adjusted ROA (**)	3.0	2.5	2.1	4.0	2.3	0.7	-0.1
Weight in total assets (%)	54.6	55.5	45.0	9.6	0.9	3.1	2.6

(*) Com. "A" 3911 and complementary communications. (**) Excluding amortization of payments for court-ordered releases and the effects of Com. "A" 3911 and complementary communications.

(***) Excluding an investment bank (by I-07 merged and by book adjustments during II-07).

Source: BCRA

Table VI.4
Profitability Structure: Public Banks
In annualized terms - As % of average netted assets

	93-00	2005	2006	2007	II-06	I-07	II-07
Financial margin	4.9	4.9	5.4	5.2	5.2	5.0	5.4
Net interest income	4.4	0.9	1.0	0.9	1.0	1.0	0.8
CER and CVS adjustments	0.0	2.3	2.3	1.8	1.9	2.0	1.7
Gains on securities	0.4	1.3	1.8	2.1	2.3	1.8	2.4
Foreign exchange price adjustments	0.0	0.2	0.2	0.3	0.1	0.2	0.4
Other financial income	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Service income margin	2.9	1.6	1.7	2.0	1.8	1.8	2.1
Operating costs	-5.8	-3.5	-3.8	-4.1	-3.9	-3.9	-4.4
Loans loss provisions (*)	-2.0	-0.5	-0.4	-0.5	-0.3	-0.3	-0.7
Adjustments to the valuation of gov. securities (*)	-	-0.3	-0.6	-0.7	-0.6	-0.1	-1.3
Tax charges	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.4
Amortization payments for court-ordered releases	-	-0.9	-1.5	-0.3	-2.3	-0.5	-0.1
Other	0.8	0.6	1.0	0.6	1.5	0.6	0.6
Monetary results	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income tax	-0.1	-0.4	-0.2	-0.6	0.2	-0.8	-0.4
ROA	0.3	1.3	1.4	1.2	1.2	1.5	0.9
ROE	1.8	12.4	12.3	10.7	11.1	13.3	8.2
Adjusted ROA (**)	-	2.4	3.5	2.2	4.1	2.1	2.3

(*) Com. "A" 3911 and complementary communications. (**) Excluding amortization of payment for court ordered releases and the effects of Com "A" 3911 and complementary communications.

Source: BCRA

retail banks (who hold more than half the financial system assets) had a ROA of 16.%a. and a ROE of 11.6%a. during the second half of the year, lower values than those recorded in the first half of the year. The performance of the banks with a regional scope is noteworthy, as they exhibited the largest profit in terms of their assets, in line with what was seen in earlier periods.

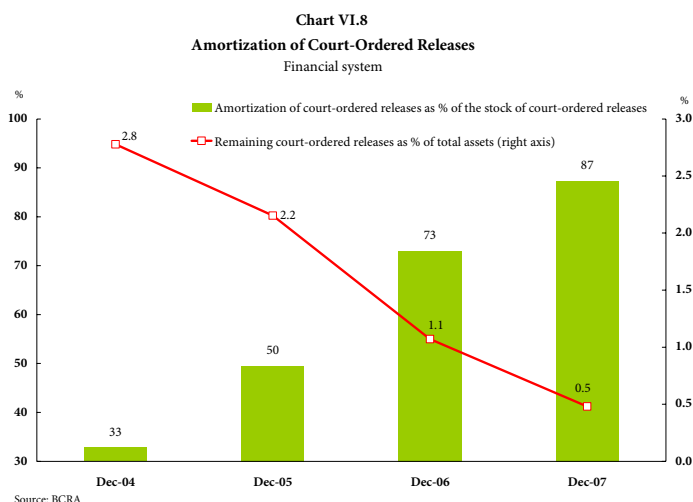
The public financial entities also earned profits in the second half of the year (ROA of 0.9%), although they were 0.6 p.p. of assets less than in the first half. Although the administrative outlays of public banks increased, most of the fall in profits was explained by an adjustment in the value of loans to the public sector carried out by a sizeable financial institution (see Table VI.4).

As a result of the consolidation of more stable revenue sources, the banking system is expected to maintain its pattern of earnings in 2008

Due to the sound prospects for domestic economic and financial activity, more depth in the financial intermediation levels is expected looking ahead to 2008. Therefore, the interest results and the net service revenues of the banks are expected to keep growing. Nevertheless, the growing competition between banks for the loan market might generate a certain fall in the banking spreads, therefore leading to moderation in the growth of interest earnings. To the extent that financial turmoil at the international level continues some volatility of the financial system results may also be seen.

In line with the positive prospects for the major financial system debtors, the levels of arrears and loan loss provisions are expected to remain at limited levels. On the other hand, due to the growth of the operating structure of the banking system and the increase of wages in the sector, the operating costs are estimated to continue increasing gradually. Despite the growth of the productive factors deployed by the sector, further efficiency gains are forecast.

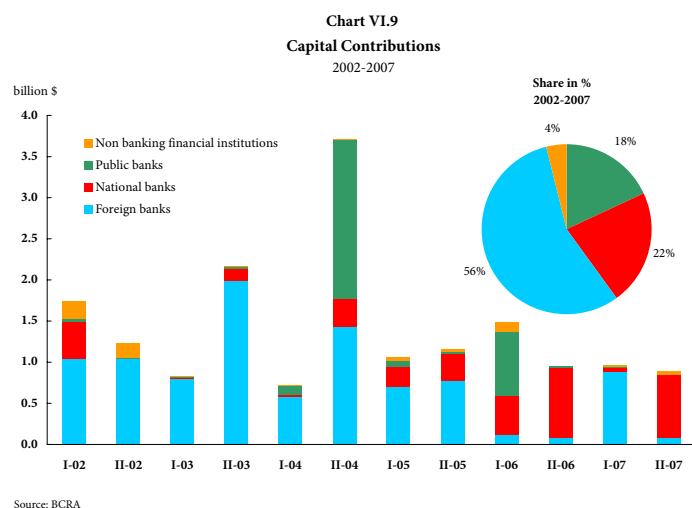
On the other hand, another factor that is estimated to contribute towards and increase in the book profits of the banking system as from 2008 will be the lesser significance and ultimate disappearance of the losses due to the amortization of court-ordered releases. During 2007 the financial system accrued a loss of 0.7% of assets on this account and it is forecast that during 2008 the process of gradual recognition of these effects of the 2001-2002 crisis will be completed, with a the charge for court orders being about 0.5% of assets (see Chart VI.8).



VI.2. Capital position

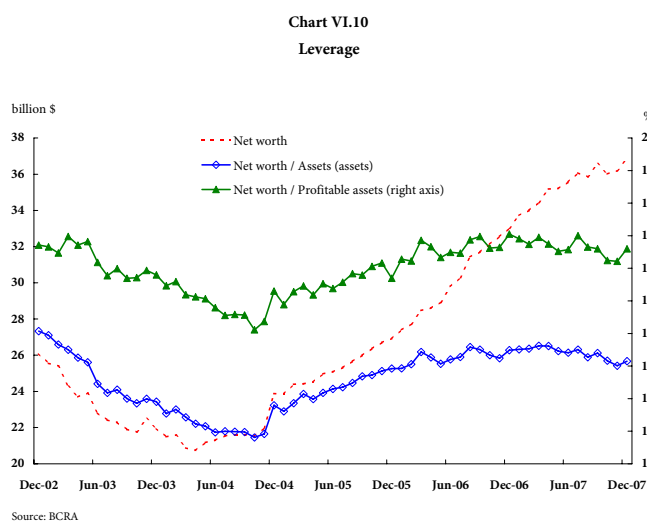
The positive results, together with the capital contributions, continued making the sector's solvency more robust

The solvency of the financial system continued strengthening in the second half of 2007, helped by the accounting profits and to a lesser extent by the capital contributions carried out by the financial entities. In particular, due to the sound prospects for the banking activity in the coming periods, during the second half of 2007 capitalizations of \$900 million were made, mostly in domestic capital private banks (see Chart VI.9). In this manner, during the past six years the capitalizations have totaled \$16.9 billion (US\$5.7 billion), with more than half of this sum channeled to the private foreign banks.



The net worth of the banking system during the second half of 2007 increased at a slower pace than in earlier periods, fundamentally due to the impact of the fall of the profit rate. Specifically, in the second half of the year the net worth of the financial system increased \$1.3 billion or 3.6% (7.4%a.), to end 2007 with an expansion of \$3.85 billion (11.7%). Most of the half-year growth of equity was accounted for by private banks. Because the rate at which the assets increased was higher, equity in terms of assets was reduced by 0.3 p.p. in the second half of the year to reach a 13.1% level at the end of 2007. On the other hand, equity compared to the profit making assets remained stable at 16.6%³⁸ (see Chart VI.10).

The financial system was able to expand in 2007 maintaining its soundness

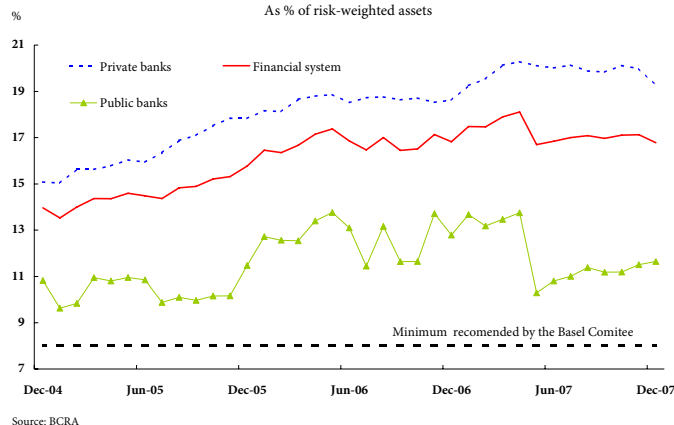


The financial system continued exhibiting adequate levels of capital compliance, exceeding the minimum levels required locally and those recommended at an international level. Specifically, the capital position of the financial system (capital compliance surplus) was 90% of the total requirement at the end of 2007, while the capital compliance remained stable throughout the year at 16.8% of the risk-weighted assets (see Chart VI.11), in a framework of a persistent increase in credit for the private sector.

Private banks improved their solvency indicators in 2007, while the public sector and the non-bank financial entities recorded a slight decline in their capital compliance ratios. The investment banks and the retail banks with a national scope increased their capital compliance in 2007, while the regional and specialized entities re-

³⁸ Profit making assets: total assets less other cash holdings, minimum cash reserves, fixed assets and sundries, branches abroad and losses from court orders that were capitalized.

Chart VI.11
Capital Compliance According to Regulation
As % of risk-weighted assets

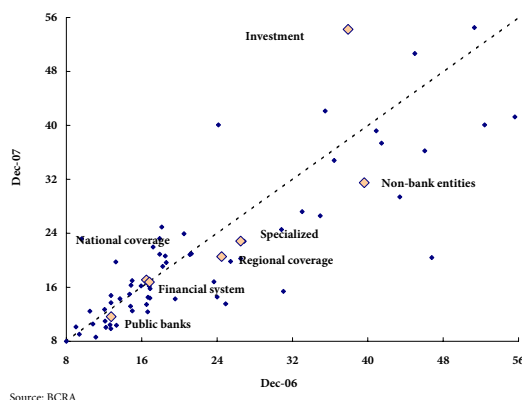


corded slight falls (see Chart VI.12). These changes were partly because, although all groups of private banks expanded their assets at risk (fundamentally due to the growth of credit to the private sector), it was the private retail and the investment banks that received most of the capitalizations during the year.

During 2008 the financial system is expected to continue consolidating its solvency levels

The financial system is forecast to continue consolidating its robustness, with its solvency levels strengthened by the continuity of positive results in a context of increasing financial intermediation with the private sector. In addition, the prospects for banking activity keep stimulating fresh capital contributions, as happened in recent years. In this manner banks are expected to continue maintaining adequate capital levels while deepening their levels of financial intermediation.

Chart VI.12
Capital Compliance
As % of risk-weighted assets



Likewise, these solvency levels allow for continuity in the schedule to adjust minimum capitals defined by the Central Bank, deepening the process of normalizing the financial system. In this direction, as from January 2008 the Alpha1 (a coefficient which temporarily reduces the capital requirement on finance for the public sector) increased from 0.50 to 0.75. According to this scheme in January 2009 Alpha1 will have a unit value, with the transitory reductions in the prudential requirements for public sector risk no longer being applicable.

Although a possible negative shock, like a deeper turbulence on the international financial markets, for example, might cause more volatility in financial institution profits, it is noteworthy that the domestic financial system is better prepared than in the past to face up to financial stress situations.

Balance of Risks

During the second half of 2007 the financial system performed in a more unfavorable international context than that seen in recent years. However, the monetary and financial policy undertaken by the Central Bank enabled the impacts on the local markets to be cushioned, avoiding a framework of liquidity restriction and credit reduction, and therefore a worsening of the domestic macroeconomic conditions. In this context the financial system exhibited an integrated risk chart with minor changes from the previous six months. Specifically, the recent dynamics of the international financial markets increased the probability of a global scenario with more restrictive conditions, leading to a marginal worsening of the balance of risks of the domestic financial system. In this context, the banking system kept improving its solvency levels, therefore increasing its resistance to face an international context of increasing uncertainty.

In the second half of 2007 banks maintained adequate prudential liquidity levels, overcoming the domestic impact of the more volatile international context without any serious problems. This momentum was partly sustained by the timely measures adopted by the Central Bank which eased the increase of the systemic liquidity.

The soundness of the banking system to face the private sector credit risk occurred in a framework of credit expansion. In this manner the prospects for household incomes and corporate profitability, both with adequate financial profiles, strengthen the payment capacity of the private sector. This momentum led the non-performing loan indicators to historically low levels and to adequate coverage by provisions in 2007. However, the consumer credit rate growth is stimulating the need to increase granting monitoring of these credit lines, which is especially relevant in a scenario of a possible deepening of the international turbulences.

In the framework of the incentives established by the Central Bank, in 2007 the financial system continued mitigating its exposure to public sector credit risk. This development was explained by the decline of the public sector assets portfolio and by the strong performance of the fiscal accounts and the level of public sector debt.

Banks recorded an increase of their foreign currency risk exposure in 2007. This trend was driven by the increase in the net purchase of foreign currency futures and the growing volatility of the peso-dollar exchange rate. The strategy of Central Bank interventions on the foreign exchange market, in a context of a prudential

policy of accumulating international reserves carried out in recent years, enables this volatility to be contained.

The interest rate risk assumed by the banking system continues providing signals of a certain improvement, mainly due to the public sector portfolio decline, which are fundamentally of a relatively longer maturity and at fixed interest rates. In this context, the Central Bank recently adopted the interest rate swap mechanism, a new tool at the disposal of the banks in order to improve their interest rate risk coverage, which becomes especially relevant in the context of possible longer maturities of credit to the private sector.

At the end of the year, market risk faced by banks grew, a trend that is aligned with the increase of the market volatility. Although the weighting of this risk on the overall banking balance of risks is low, the Central Bank took measures to avoid possible short term movements having a negative impact on credit to the private sector.

Facing a relatively stable balance of risks, the consolidation of profits, together with a larger weighting of the recurring revenues, and a higher level of capitalization was reflected by an improvement of the financial system solvency. This situation should provide a more ample framework to face up possible negative shocks.

As a result, the favorable domestic economic scenario seen in recent years, added to the measures the Central Bank took, boosted the sustained development of the financial system during 2007, without neglecting an adequate balance of the risks assumed. Looking ahead at 2008 the banking system exhibits sound conditions to overcome the greater international turbulence that is forecasted. Despite the expected scenario, it is estimated that the probability of a negative international context that brings with it certain adverse impact on the domestic macro-economy and financial system has increased slightly in recent months, although it is at a low level. In this framework is considered necessary to strengthen the tasks to monitor the sector with the purpose of consolidating the financial stability scenario.

Statistics Annex – Financial System

Chart 1 | Financial Soundness Indicators

As %	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
1- Liquidity	22.3	26.1	23.1	25.0	23.4	19.6	22.8	29.1	29.6	20.1	22.5	23.0
2- Lending to the public sector	16.9	16.2	16.2	18.0	17.3	23.0	48.5	46.5	40.6	31.3	22.3	16.1
3- Lending to the private sector	50.8	47.7	48.4	44.9	39.9	42.7	20.8	18.1	19.6	25.8	31.0	38.2
4- Private non-performing loans	16.2	13.8	12.2	14.0	16.0	19.1	38.6	33.5	18.6	7.6	4.5	3.2
5- Net worth exposure to private sector	24.9	22.5	20.6	24.7	26.2	21.9	17.3	12.4	-1.0	-4.1	-3.3	-3.0
6- ROA	0.6	1.0	0.5	0.2	0.0	0.0	-8.9	-2.9	-0.5	0.9	1.9	1.5
7- ROE	4.1	6.3	3.9	1.7	0.0	-0.2	-59.2	-22.7	-4.2	7.0	14.3	11.0
8- Efficiency	142	136	138	142	147	143	189	69	125	151	167	160
9- Capital compliance	23.8	20.8	20.3	21.0	20.1	21.4	-	14.5	14.0	15.3	16.8	16.8
10- Excess capital compliance	64	73	49	54	58	54	-	116	185	173	134	89

Source: BCRA

Chart 2 | Balance Sheet

In millions of current pesos	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Dec 05	Dec 06	Jun 07	Dec 07	Change (%)	
										Half-yearly	Inter annual
Assets	163,550	123,743	187,532	186,873	212,562	221,962	258,384	289,443	297,970	2.9	15.3
Liquid assets ¹	20,278	13,005	17,138	27,575	29,154	20,819	37,991	37,579	46,320	23.3	21.9
Public bonds	10,474	3,694	31,418	45,062	55,382	66,733	64,592	76,929	62,677	-18.5	-3.0
Lebac/Nobac	0	0	-	-	17,755	28,340	29,289	44,504	36,022	-19.1	23.0
Portfolio	0	0	-	-	11,803	21,067	25,767	35,189	31,598	-10.2	22.6
Repo	0	0	-	-	5,953	7,273	3,521	9,315	4,424	-52.5	25.6
Private bonds	633	543	332	198	387	389	813	795	382	-51.9	-53.0
Loans	83,277	77,351	84,792	68,042	73,617	84,171	103,668	112,084	132,157	17.9	27.5
Public sector	15,164	22,694	44,337	33,228	30,866	25,836	20,874	16,734	16,772	0.2	-19.7
Private sector	64,464	52,039	38,470	33,398	41,054	55,885	77,832	89,922	110,355	22.7	41.8
Financial sector	3,649	2,617	1,985	1,417	1,697	2,450	4,962	5,427	5,030	-7.3	1.4
Provisions over loans	-6,907	-6,987	-11,952	-9,374	-7,500	-4,930	-3,728	-4,019	-4,080	1.5	9.4
Other netted credits due to financial intermediation	42,361	21,485	39,089	27,030	32,554	26,721	26,039	35,707	29,712	-16.8	14.1
Corporate bonds and subordinated debt	794	751	1,708	1,569	1,018	873	773	724	606	-16.4	-21.7
Unquoted trusts	2,053	2,065	6,698	4,133	3,145	3,883	4,881	4,753	5,023	5.7	2.9
Compensation receivable	0	0	17,111	14,937	15,467	5,841	763	367	377	2.9	-50.6
Other	39,514	18,669	13,572	6,392	12,924	16,124	19,622	29,863	23,706	-20.6	20.8
Leasing	786	771	567	397	611	1,384	2,262	2,945	3,469	17.8	53.4
Shares in other companies	2,645	2,688	4,653	4,591	3,871	4,532	6,392	6,836	6,430	-5.9	0.6
Fixed assets and miscellaneous	4,939	4,804	8,636	8,164	7,782	7,546	7,619	7,628	7,643	0.2	0.3
Foreign branches	1,115	1,057	3,522	3,144	3,524	3,647	2,782	2,884	2,912	1.0	4.7
Other assets	3,950	5,334	9,338	12,043	13,180	10,950	9,953	10,074	10,346	2.7	3.9
Liabilities	146,267	107,261	161,446	164,923	188,683	195,044	225,369	253,873	261,139	2.9	15.9
Deposits	86,506	66,458	75,001	94,635	116,655	136,492	170,898	190,281	205,551	8.0	20.3
Public sector ²	7,204	950	8,381	16,040	31,649	34,019	45,410	47,805	48,340	1.1	6.5
Private sector ²	78,397	43,270	59,698	74,951	83,000	100,809	123,431	139,935	155,048	10.8	25.6
Current account	6,438	7,158	11,462	15,071	18,219	23,487	26,900	32,054	35,245	10.0	31.0
Savings account	13,008	14,757	10,523	16,809	23,866	29,078	36,442	40,654	47,109	15.9	29.3
Time deposit	53,915	18,012	19,080	33,285	34,944	42,822	54,338	60,515	65,952	9.0	21.4
CEDRO	0	0	12,328	3,217	1,046	17	13	13	0	-	-
Other netted liabilities due to financial intermediation	55,297	36,019	75,737	61,690	64,928	52,072	46,037	54,976	46,226	-15.9	0.4
Interbanking obligations	3,545	2,550	1,649	1,317	1,461	2,164	4,578	4,864	4,310	-11.4	-5.9
BCRA lines	102	4,470	27,837	27,491	27,726	17,005	7,686	3,585	2,362	-34.1	-69.3
Outstanding bonds	4,954	3,777	9,096	6,675	7,922	6,548	6,603	8,003	6,938	-13.3	5.1
Foreign lines of credit	8,813	7,927	25,199	15,196	8,884	4,684	4,240	3,255	3,864	18.7	-8.9
Other	37,883	17,295	11,955	11,012	18,934	21,671	22,930	35,269	28,752	-18.5	25.4
Subordinated debts	2,255	2,260	3,712	2,028	1,415	1,381	1,642	1,657	1,672	0.9	1.9
Other liabilities	2,210	2,524	6,997	6,569	5,685	5,099	6,792	6,958	7,690	10.5	13.2
Net worth	17,283	16,483	26,086	21,950	23,879	26,918	33,014	35,570	36,831	3.5	11.6
Memo											
Netted assets	129,815	110,275	185,356	184,371	202,447	208,275	244,791	265,256	280,344	5.7	14.5
Consolidated netted assets	125,093	106,576	181,253	181,077	198,462	203,286	235,845	255,465	271,660	6.3	15.2

(1) Includes margin accounts with the BCRA; (2) Does not include accrual on interest or CER.

Source: BCRA

Methodological note (chart 1)

1.- (Cash compliance according to BCRA + Other cash holdings + Central Bank repos) / Total deposits; **2.-** (Public bonds position (without LEBAC and NOBAC) + Loans to the public sector + Compensation receivable) / Netted assets; **3.-** (Loans to the private sector + Leases) / Netted assets; **4.-** Non-performing loans to the non-financial private sector / Loans to the non-financial private sector; **5.-** (Total non-performing loans - Provisions) / Net worth. The non-performing loans includes loans classified in situation 3,4,5 and 6; **6.-** Accumulated annual results / Average monthly netted assets - % Annualized; **7.-** Accumulated annual results / Average monthly net worth - % Annualized; **8.-** (Financial margin (Net interest income + CER and CVS adjustments + Gains on securities + Foreign exchange price adjustments + Other financial income) + Service income margin) / Operating costs; **9.-** Capital compliance (Responsabilidad Patrimonial Computable) / Risk - adjusted assets according to the regulation of BCRA about Minimum Capital Compliance; **10.-** (Capital compliance minus requirements, included forbearances) / Capital requirements.

Statistics Annex – Financial System (cont.)

Chart 3 | Profitability Structure

In millions of current pesos	Annual									Half year			Change (%)	
	1999	2000	2001	2002 ¹	2003	2004	2005	2006	2007	II-06	I-07	II-07	II-07 / I-07	II-07 / II-06
Financial margin	6,967	7,291	6,943	13,991	1,965	6,075	9,475	13,262	15,165	7,030	7,328	7,836	7	11
Net interest income	5,396	5,106	4,625	-3,624	-943	1,753	3,069	4,150	5,745	2,201	2,545	3,199	26	45
CER and CVS adjustments	0	0	0	8,298	2,315	1,944	3,051	3,012	2,624	1,254	1,449	1,175	-19	-6
Foreign exchange rate adjustments	227	185	268	5,977	-890	866	751	944	1,356	383	499	858	72	124
Gains on securities	1,112	1,481	1,490	3,639	1,962	1,887	2,371	4,923	5,175	3,074	2,691	2,484	-8	-19
Other financial income	232	519	559	-299	-480	-375	233	235	264	118	144	121	-16	2
Service income margin	3,623	3,582	3,604	4,011	3,415	3,904	4,781	6,243	8,248	3,424	3,751	4,496	20	31
Loan loss provisions	-2,565	-3,056	-3,096	-10,007	-2,089	-1,511	-1,173	-1,198	-1,896	-603	-733	-1,163	59	93
Operating costs	-7,432	-7,375	-7,362	-9,520	-7,760	-7,998	-9,437	-11,655	-14,632	-6,278	-6,721	-7,911	18	26
Tax charges	-497	-528	-571	-691	-473	-584	-737	-1,090	-1,537	-611	-681	-856	26	40
Income tax	-421	-446	-262	-509	-305	-275	-581	-595	-1,031	-192	-619	-412	-33	114
Adjustments to the valuation of government securities ²	0	0	0	0	-701	-320	-410	-752	-838	-370	-37	-801	2,085	116
Amortization payments for court-ordered releases	0	0	0	0	-1,124	-1,686	-1,867	-2,573	-1,821	-1,755	-1,061	-760	-28	-57
Other	617	535	702	-3,880	1,738	1,497	1,729	2,664	2,249	1,845	989	1,261	28	-32
Monetary results	0	0	0	-12,558	69	0	0	0	0	0	0	0	0	0
Total results	291	3	-42	-19,162	-5,265	-898	1,780	4,306	3,906	2,490	2,217	1,688	-24	-32
Adjusted results ³	-	-	-	-	-3,440	1,337	4,057	7,631	6,565	4,615	3,315	3,250	-2	-30
<i>Annualized indicators - As % of netted assets</i>													<i>change in p.p.</i>	
Financial margin	5.6	5.7	5.7	6.5	1.1	3.1	4.6	5.8	5.7	5.9	5.7	5.7	0.0	-0.2
Net interest income	4.3	4.0	3.8	-1.7	-0.5	0.9	1.5	1.8	2.2	1.9	2.0	2.3	0.4	0.5
CER and CVS adjustments	0.0	0.0	0.0	3.9	1.3	1.0	1.5	1.3	1.0	1.1	1.1	0.9	-0.3	-0.2
Foreign exchange rate adjustments	0.2	0.1	0.2	2.8	-0.5	0.4	0.4	0.5	0.3	0.4	0.4	0.6	0.2	0.3
Gains on securities	0.9	1.2	1.2	1.7	1.1	1.0	1.2	2.2	2.0	2.6	2.1	1.8	-0.3	-0.8
Other financial income	0.2	0.4	0.5	-0.1	-0.3	-0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Service income margin	2.9	2.8	3.0	1.9	1.9	2.0	2.3	2.7	3.1	2.9	2.9	3.3	0.4	0.4
Loan loss provisions	-2.1	-2.4	-2.6	-4.7	-1.1	-0.8	-0.6	-0.5	-0.7	-0.5	-0.6	-0.8	-0.3	-0.3
Operating costs	-5.9	-5.8	-6.1	-4.4	-4.2	-4.1	-4.6	-5.1	-5.5	-5.3	-5.2	-5.8	-0.5	-0.5
Tax charges	-0.4	-0.4	-0.5	-0.3	-0.3	-0.3	-0.4	-0.5	-0.6	-0.5	-0.5	-0.6	-0.1	-0.1
Income tax	-0.3	-0.3	-0.2	-0.2	-0.2	-0.1	-0.3	-0.3	-0.4	-0.2	-0.5	-0.3	0.2	-0.1
Adjustments to the valuation of government securities ²	0.0	0.0	0.0	0.0	-0.4	-0.2	-0.2	-0.3	-0.3	-0.3	0.0	-0.6	-0.6	-0.3
Amortization payments for court-ordered releases	0.0	0.0	0.0	0.0	-0.6	-0.9	-0.9	-1.1	-0.7	-1.5	-0.8	-0.6	0.3	0.9
Other	0.5	0.4	0.6	-1.8	0.9	0.8	0.8	1.2	0.8	1.6	0.8	0.9	0.1	-0.6
Monetary results	0.0	0.0	0.0	-5.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ROA	0.2	0.0	0.0	-8.9	-2.9	-0.5	0.9	1.9	1.5	2.1	1.7	1.2	-0.5	-0.9
ROA adjusted ³	-	-	-	-	-1.9	0.7	2.0	3.4	2.5	3.9	2.6	2.4	-0.2	-1.5
ROE	1.7	0.0	-0.2	-59.2	-22.7	-4.2	7.0	14.3	11.0	15.6	12.8	9.3	-3.5	-6.3

(1) Information in currency of december 2002. (2) Com. "A" 3911. Adjustments to the valuation of government unlisted securities according to Com. "A" 4084 are included under the "gains on securities" heading.

(3) Excluding amortization of payments for court-ordered releases and the effects of Com. "A" 3911 and 4084.

Source: BCRA

Chart 4 | Portfolio Quality

As percentages	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Dec 05	Dec 06	Dec 07
Non-performing loans (overall)	12.9	13.1	18.1	17.7	10.7	5.2	3.4	2.7
Non-performing loans to the non-financial private sector	16.0	19.1	38.6	33.5	18.6	7.6	4.5	3.2
Commercial portfolio (*)	14.9	20.7	44.0	38.0	22.8	9.3	5.0	3.1
Consumption and housing portfolio	17.3	17.5	31.4	28.0	11.0	4.8	3.5	3.4
Provisions / Total non-performing loans	61	66	74	79	103	125	130	130
(Total non-performing - Provisions) / Overall financing	5.0	4.4	4.7	3.7	-0.3	-1.3	-1.0	-0.8
(Total non-performing - Provisions) / Net worth	26.2	21.6	17.2	11.9	-1.0	-4.1	-3.3	-3.0

(*) Include commercial loans treated as consumer loans for classification purposes.

Source: BCRA

Chart 5 | International Indicators

	GDP	Liquid assets / Private deposits	Private loans / Total assets	Non-performing loans to the private sector	Provisions / Non-performing loans	ROA	ROE	ROE (in real terms)	Capital compliance / Risk weighted assets
2006/2007: Last available data	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Argentina	282	25.7	37	3.2	130	1.5	11.0	2.3	16.8
Australia	871	0.8	86	0.9	205	1.6	27.0	23.0	10.4
Brazil	1,100	5.7	40	2.5	153	2.3	23.0	19.1	18.5
Chile	156	6.1	84	2.4	191	1.2	17.0	11.6	12.8
Spain	1,427	1.6	79	1.4	252	1.0	21.4	18.5	11.9
USA	13,670	0.6	56	2.1	130	1.2	11.4	8.8	13.0
Japan	4,340	1.6	52	1.5	30	0.4	10.0	9.8	13.1
Mexico	869	14.0	25	2.3	195	3.2	20.3	15.6	16.1
United Kingdom	2,700	1.6	44	1.0	56	0.5	10.6	7.8	12.9

Source: BCRA; International Financial Statistics (July 2006) and Global Financial Stability Report (September 2006) - International Monetary Fund.

Methodological note (chart 5)

1.- GDP 2006 – in billion of US\$; 2.- Cash in banks plus deposits in the monetary authority / Private deposits (%); 3.- Loans to the private sector / Total assets (%); 4.- Non-performing loans to the private sector / Total loans to the private sector (%); 5.- Provisions / Non-performing loans (%); 6.- Total results / Netted assets (%); 7.- Total results / Net worth (%); 8.- Total results / Net worth (%) (deflated by CPI); 9.- Capital compliance / Risk - adjusted assets (%).

Statistics Annex – Private Banks

Chart 6 | Financial Soundness Indicators

As %	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
1- Liquidity	23.6	26.9	22.8	24.3	24.1	23.6	24.8	27.6	29.2	21.5	23.7	25.7
2- Lending to the public sector	13.5	13.7	13.6	16.1	14.7	20.8	49.4	47.1	41.2	28.0	15.9	9.1
3- Lending to the private sector	51.0	46.7	47.6	44.6	38.4	45.4	22.4	19.9	22.5	31.1	37.9	46.6
4- Private non-performing loans	11.1	8.5	7.7	8.9	9.8	14.0	37.4	30.4	15.3	6.3	3.6	2.5
5- Net worth exposure to private sector	21.6	14.3	13.2	11.5	13.4	11.4	18.6	11.2	1.9	-2.2	-3.0	-3.6
6- ROA	0.6	0.7	0.5	0.3	0.1	0.2	-11.3	-2.5	-1.0	0.5	2.2	1.6
7- ROE	4.1	6.3	4.3	2.3	0.8	1.4	-79.0	-19.1	-8.1	4.1	15.3	10.9
8- Efficiency	144	135	139	146	152	151	168	93	115	136	158	152
9- Capital compliance	15.9	15.4	14.6	18.9	18.0	17.6	-	14.0	15.1	17.8	18.6	19.2
10- Excess capital compliance	33	47	27	60	49	43	-	88	157	155	116	86

Source: BCRA

Chart 7 | Balance Sheet

In millions of current pesos	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Dec 05	Dec 06	Jun 07	Dec 07	Change (%)	
										Half-yearly	Inter annual
Assets	119,371	82,344	118,906	116,633	128,065	129,680	152,414	166,408	175,509	5.5	15.2
Liquid assets ¹	13,920	10,576	11,044	14,500	15,893	14,074	22,226	23,293	29,418	26.3	32.4
Public bonds	7,583	1,627	19,751	22,260	24,817	29,966	27,663	32,298	24,444	-24.3	-11.6
Lebac/Nobac	0	0	-	-	8,359	15,227	15,952	22,229	17,684	-20.4	10.9
Portfolio	0	0	-	-	5,611	12,899	14,220	18,668	15,639	-16.2	10.0
Repo	0	0	-	-	2,749	2,328	1,732	3,561	2,045	-42.6	18.1
Private bonds	563	451	273	172	333	307	683	639	310	-51.5	-54.6
Loans	56,035	52,319	51,774	47,017	50,741	56,565	69,294	74,876	88,898	18.7	28.3
Public sector	8,172	13,803	25,056	23,571	21,420	15,954	10,036	6,461	6,413	-0.7	-36.1
Private sector	45,103	36,636	26,074	22,816	28,213	39,031	55,632	64,311	78,587	22.2	41.3
Financial sector	2,760	1,880	644	630	1,107	1,580	3,626	4,104	3,898	-5.0	7.5
Provisions over loans	-3,248	-3,957	-7,463	-5,225	-3,717	-2,482	-2,227	-2,293	-2,365	3.1	6.2
Other netted credits due to financial intermediation	36,600	13,037	27,212	22,148	25,753	16,873	18,387	20,136	17,084	-15.2	-7.1
Corporate bonds and subordinated debt	724	665	1,514	1,394	829	675	618	583	430	-26.2	-30.4
Unquoted trusts	1,609	1,637	6,205	3,571	2,362	2,444	2,982	3,403	3,456	1.5	15.9
Compensation receivable	0	0	15,971	13,812	14,657	5,575	760	366	377	2.9	-50.4
Other	34,267	10,735	3,523	3,370	7,905	8,179	14,027	15,783	12,822	-18.8	-8.6
Leasing	776	752	553	387	592	1,356	2,126	2,743	3,149	14.8	48.1
Shares in other companies	1,651	1,703	3,123	2,791	1,892	2,416	4,042	4,433	3,762	-15.1	-6.9
Fixed assets and miscellaneous	3,225	3,150	5,198	4,902	4,678	4,575	4,677	4,676	4,685	0.2	0.2
Foreign branches	75	112	-109	-136	-53	-148	-139	-145	-154	5.9	10.7
Other assets	2,190	2,574	7,549	7,816	7,137	6,178	5,682	5,753	6,277	9.1	10.5
Liabilities	107,193	70,829	103,079	101,732	113,285	112,600	131,476	143,830	152,153	5.8	15.7
Deposits	57,833	44,863	44,445	52,625	62,685	75,668	94,095	105,833	116,719	10.3	24.0
Public sector ²	1,276	950	1,636	3,077	6,039	6,946	7,029	7,730	7,564	-2.1	7.6
Private sector ²	55,917	43,270	38,289	47,097	55,384	67,859	85,714	96,668	107,671	11.4	25.6
Current account	4,960	7,158	8,905	11,588	13,966	17,946	20,604	24,317	27,132	11.6	31.7
Savings account	9,409	14,757	6,309	10,547	14,842	18,362	23,165	25,485	30,169	18.4	30.2
Time deposit	39,030	18,012	11,083	18,710	22,729	27,736	38,043	42,582	45,770	7.5	20.3
CEDRO	0	0	9,016	2,409	798	3	1	1	0	-	-
Other netted liabilities due to financial intermediation	46,271	22,629	49,341	42,367	45,083	32,349	31,750	32,598	29,323	-10.0	-7.6
Interbanking obligations	2,293	1,514	836	726	1,070	1,488	3,383	3,204	1,979	-38.3	-41.5
BCRA lines	83	1,758	16,624	17,030	17,768	10,088	3,689	730	675	-7.6	-81.7
Outstanding bonds	4,939	3,703	9,073	6,674	7,922	6,548	6,413	7,813	6,686	-14.4	4.3
Foreign lines of credit	5,491	4,644	15,434	9,998	5,444	2,696	2,249	1,286	1,833	42.5	-18.5
Other	33,466	11,010	7,374	7,939	12,878	11,530	16,015	19,564	18,150	-7.2	13.3
Subordinated debts	1,668	1,700	3,622	1,850	1,304	1,319	1,642	1,653	1,668	0.9	1.6
Other liabilities	1,420	1,637	5,671	4,890	4,213	3,264	3,989	3,745	4,443	18.6	11.4
Net worth	12,178	11,515	15,827	14,900	14,780	17,080	20,938	22,578	23,356	3.4	11.5
Memo											
Netted assets	88,501	73,796	117,928	115,091	121,889	123,271	143,807	154,184	166,231	7.8	15.6

(1) Includes margin accounts with the BCRA; (2) Does not include accrual on interest or CER.

Source: BCRA

Methodological note (chart 6)

1.- (Cash compliance according to BCRA + Other cash holdings + Central Bank repos) / Total deposits; **2.-** (Public bonds position (without LEBAC and NOBAC) + Loans to the public sector + Compensation receivable) / Netted assets; **3.-** (Loans to the private sector + Leases) / Netted assets; **4.-** Non-performing loans to the non-financial private sector / Loans to the non-financial private sector; **5.-** (Total non-performing loans - Provisions) / Net worth. The non-performing loans includes loans classified in situation 3,4,5 and 6; **6.-** Accumulated annual results / Average monthly netted assets - % Annualized; **7.-** Accumulated annual results / Average monthly net worth - % Annualized; **8.-** (Financial margin (Net interest income + CER and CVS adjustments + Gains on securities + Foreign exchange price adjustments + Other financial income) + Service income margin) / Operating costs; **9.-** Capital compliance (Responsabilidad Patrimonial Computable) / Risk - adjusted assets according to the regulation of BCRA about Minimum Capital Compliance; **10.-** (Capital compliance minus requirements, included forbearances) / Capital requirements.

Statistics Annex – Private Banks (cont.)

Chart 8 | Profitability Structure

	Annual									Half year			Change (%)	
<i>In millions of current pesos</i>	1999	2000	2001	2002 ¹	2003	2004	2005	2006	2007	II-06	I-07	II-07	II-07 / I-07	II-07 / II-06
Financial margin	5,176	5,441	5,282	10,628	2,575	3,415	5,253	7,778	8,960	4,233	4,407	4,553	3	8
Net interest income	3,819	3,598	3,519	-304	107	1,214	2,069	2,826	4,191	1,496	1,742	2,449	41	64
CER and CVS adjustments	0	0	0	1,476	1,082	900	1,215	858	662	360	401	261	-35	-27
Foreign exchange rate adjustments	213	160	256	6,189	-312	666	576	740	990	327	387	602	56	84
Gains on securities	908	1,232	962	3,464	1,892	959	1,259	3,154	2,888	1,935	1,747	1,141	-35	-41
Other financial income	236	450	546	-197	-195	-322	134	199	229	114	131	98	-25	-14
Service income margin	2,598	2,554	2,598	2,782	2,341	2,774	3,350	4,459	5,881	2,443	2,713	3,168	17	30
Loan loss provisions	-1,872	-2,173	-2,464	-6,923	-1,461	-1,036	-714	-737	-1,174	-411	-518	-656	27	60
Operating costs	-5,326	-5,263	-5,224	-6,726	-5,310	-5,382	-6,303	-7,741	-9,736	-4,177	-4,475	-5,261	18	26
Tax charges	-368	-379	-418	-512	-366	-393	-509	-769	-1,105	-426	-486	-619	27	45
Income tax	-386	-393	-216	-337	-295	-202	-217	-365	-379	-258	-192	-187	-2	-27
Adjustments to the valuation of government securities ²	0	0	0	0	-665	-51	-201	-170	-100	-68	20	-120	-708	75
Amortization payments for court-ordered releases	0	0	0	0	-791	-1,147	-1,168	-1,182	-1,466	-643	-781	-684	-12	6
Other	447	307	615	-4,164	1,178	846	1,156	1,641	1,576	1,113	666	910	37	-18
Monetary results	0	0	0	-10,531	-20	0	0	0	0	0	0	0	0	0
Total results	269	93	174	-15,784	-2,813	-1,176	648	2,915	2,457	1,806	1,353	1,104	-18	-39
Adjusted results ³	-	-	-	-	-1,357	252	2,016	4,267	4,023	2,518	2,115	1,908	-10	-24
<i>Annualized indicators - As % of netted assets</i>													<i>change in p.p.</i>	
Financial margin	6.1	6.2	6.4	7.6	2.3	2.9	4.3	5.9	5.8	6.1	5.9	5.7	-0.3	-0.5
Net interest income	4.5	4.1	4.3	-0.2	0.1	1.0	1.7	2.1	2.7	2.2	2.3	3.1	0.7	0.9
CER and CVS adjustments	0.0	0.0	0.0	1.1	0.9	0.8	1.0	0.6	0.4	0.5	0.5	0.3	-0.2	-0.2
Foreign exchange rate adjustments	0.3	0.2	0.3	4.4	-0.3	0.6	0.5	0.6	0.6	0.5	0.5	0.8	0.2	0.3
Gains on securities	1.1	1.4	1.2	2.5	1.7	0.8	1.0	2.4	1.9	2.8	2.3	1.4	-0.9	-1.4
Other financial income	0.3	0.5	0.7	-0.1	-0.2	-0.3	0.1	0.2	0.1	0.2	0.2	0.1	-0.1	0.0
Service income margin	3.1	2.9	3.2	2.0	2.0	2.4	2.7	3.4	3.8	3.5	3.6	3.9	0.3	0.4
Loan loss provisions	-2.2	-2.5	-3.0	-5.0	-1.3	-0.9	-0.6	-0.6	-0.8	-0.6	-0.7	-0.8	-0.1	-0.2
Operating costs	-6.3	-6.0	-6.4	-4.8	-4.6	-4.6	-5.1	-5.9	-6.3	-6.1	-6.0	-6.6	-0.5	-0.5
Tax charges	-0.4	-0.4	-0.5	-0.4	-0.3	-0.3	-0.4	-0.6	-0.7	-0.6	-0.7	-0.8	-0.1	-0.2
Income tax	-0.5	-0.4	-0.3	-0.2	-0.3	-0.2	-0.2	-0.3	-0.2	-0.4	-0.3	-0.2	0.0	0.1
Adjustments to the valuation of government securities ²	0.0	0.0	0.0	0.0	-0.6	0.0	-0.2	-0.1	-0.1	-0.1	0.0	-0.1	-0.2	-0.1
Amortization payments for court-ordered releases	0.0	0.0	0.0	0.0	-0.7	-1.0	-1.0	-0.9	-0.9	-0.9	-1.1	-0.9	0.2	0.1
Other	0.5	0.4	0.7	-3.0	1.0	0.7	0.9	1.2	1.0	1.6	0.9	1.1	0.2	-0.5
Monetary results	0.0	0.0	0.0	-7.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ROA	0.3	0.1	0.2	-11.3	-2.5	-1.0	0.5	2.2	1.6	2.6	1.8	1.4	-0.4	-1.2
ROA adjusted ³	-	-	-	-	-1.2	0.2	1.6	3.2	2.6	3.7	2.8	2.4	-0.5	-1.3
<i>ROE</i>	2.3	0.8	1.4	-79.0	-19.1	-8.1	4.1	15.3	10.9	18.0	12.3	9.6	-2.7	-8.4

(1) Information in currency of december 2002. (2) Com. "A" 3911. Adjustments to the valuation of government unlisted securities according to Com. "A" 4084 are included under the "gains on securities" heading.

(3) Excluding amortization of payments for court-ordered releases and the effects of Com. "A" 3911 and 4084.

Source: BCRA

Chart 9 | Portfolio Quality

<i>As percentages</i>	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Dec 05	Dec 06	Dec 07
Non-performing loans (overall)	8.3	9.9	19.8	15.7	8.9	4.4	2.9	2.2
Non-performing loans to the non-financial private sector	9.8	14.0	37.4	30.4	15.3	6.3	3.6	2.5
Commercial portfolio (*)	8.4	15.4	44.7	39.0	18.2	7.3	3.8	2.0
Consumption and housing portfolio	11.9	12.4	26.0	17.2	10.0	4.2	3.2	3.2
Provisions / Total non-performing loans	68	76	73	79	96	115	130	142
(Total non-performing - Provisions) / Overall financing	2.7	2.4	5.3	3.3	0.4	-0.6	-0.9	-0.9
(Total non-performing - Provisions) / Net worth	13.4	11.4	18.6	11.2	1.3	-2.2	-3.0	-3.6

(*) Include commercial loans treated as consumer loans for classification purposes.

Source: BCRA

Abbreviations and Acronyms

AEIRR: Annual Effective Internal Rate of Return

AFJP: *Administradora de Fondos de Jubilaciones y Pensiones.*

ANSES: *Administración Nacional de Seguridad Social.* National Social Security Administration.

APE: *Acuerdos Preventivos Extra-judiciales.* Preliminary out-of-court agreements.

APR: Annual Percentage Rate.

b.p.: basis points.

BADLAR: Interest rate for time deposits over one million pesos between 30 and 35 days for the average of financial entities.

BCBA: *Bolsa de Comercio de Buenos Aires.* Buenos Aires Stock Exchange.

BCRA: *Banco Central de la República Argentina.* Central Bank of Argentina.

BIS: Bank of International Settlements.

BM: Monetary Base. Defined as money in circulation plus current account deposits in pesos by financial entities in the BCRA.

Boden: *Bonos del Estado Nacional.* Federal Bonds.

Bogar: *Bonos Garantizados.* Guaranteed Bonds.

BoJ: Bank of Japan.

Bonar: *Bonos de la Nación Argentina.* Argentine National Bonds.

BOVESPA: São Paulo Stock Exchange.

CAMEL: Capital, Assets, Management, Earnings and Liquidity.

Cdad. de Bs. As.: *Ciudad de Buenos Aires.* Buenos Aires City.

CDS: Credit Default Swaps

CEC: *Cámaras Electrónicas de Compensación.* Electronic Clearing Houses.

CEDEM: *Centro de Estudios para el Desarrollo Económico Metropolitano.* Study Center for Metropolitan Economic Development.

CEDRO: *Certificado de Depósito Reprogramado.* Rescheduled Deposit Certificate.

CER: *Coeficiente de Estabilización de Referencia.* Reference Stabilization Coefficient.

CIMPRA: *Comisión Interbancaria para Medios de Pago de la República Argentina.*

CNV: *Comisión Nacional de Valores.* National Securities Commission

CPI: Consumer Price Index.

CPI Others: *CPI excluidos los bienes y servicios con alta estacionalidad, volatilidad o los sujetos a regulación o alto componente impositivo.* CPI excluded goods and services with high seasonal and irregular components, regulated prices or high tax components

Credit to the public sector: includes the position in government securities (excluding LEBAC and NOBAC), loans to the public sector and compensation receivable.

CVS: *Coeficiente de Variación Salarial.* Wage variation coefficient.

DGF: Deposit Guarantee Fund.

Disc: Discount bond.

EB: Executive Branch.

ECB: European Central Bank.

EMBI: Emerging Markets Bond Index.

EMI: *Estimador Mensual Industrial.* Monthly Industrial Indicator

EPH: *Encuesta Permanente de Hogares.* Permanent Household Survey.

Fed: Federal Reserve of US.

FOMC: Federal Open Market Committee (US).

FS: Financial Stability.

FSR: Financial Stability Report.

FT: Financial trust.

FUCO: *Fondo Unificado de Cuentas Corrientes Oficiales.* Unified Official Current Account Fund.

FV: Face value.

GDP: Gross Domestic Product.

HHI: Herfindahl-Hirschman Index.

IADB: Inter-American Development Bank.

IAMC: *Instituto Argentino de Mercado de Capitales.*

ICs: Insurance Companies.

IDCCB: *Impuesto a los Débitos y Créditos en Cuentas Bancarias.* Tax on Current Account Debits and Credits.

IFI: International Financial Institutions: IMF, IADB and WB.

IFS: International Financial Statistics.

IMF: International Monetary Fund.

INDEC: *Instituto Nacional de Estadísticas y Censos.* National Institute of Statistics and Censuses.

IndeR: *Instituto Nacional de Reaseguros.* National Institute of Reinsurance.

IPMP: *Índice de Precios de las Materias Primas.* Central Bank Commodities Price Index.

IPSA: *Índice de Precios Selectivo de Acciones.* Chile Stock Exchange Index.

IRR: Internal Rate of Return.

ISAC: *Índice Sintético de Actividad de la Construcción.* Construction Activity Index.

ISDA: International Swaps and Derivates Association.

ISSP: *Índice Sintético de Servicios Públicos.* Synthetic Indicator of Public Services.

Lebac: *Letras del Banco Central de la República Argentina.* BCRA bills.

LIBOR: London Interbank Offered Rate.

m.a.: Moving average.

M2: Currency held by public + quasi-monies + \$ saving and current accounts.	p.p.: Percentage point.
M3: Currency held by public + quasi-monies + \$ total deposits.	Par: Par bond.
MAE: <i>Mercado Abierto Electrónico</i> . Electronic over-the-counter market.	PGN: <i>Préstamos Garantizados Nacionales</i> . National Guaranteed Loans.
MAS: Mutual Assurance Societies.	PF: Pension Funds.
MC: Minimum cash.	PPP: Purchasing power parity.
MEC: Electronic Open Market.	PPS: Provincial public sector.
MECON: Ministerio de Economía y Producción. Ministry of Economy and Production.	PS: Price Stability.
MEP: <i>Medio Electrónico de Pagos</i> . Electronic Means of Payment.	PV: Par Value.
MERCOSUR: <i>Mercado Común del Sur</i> . Southern Common Market.	q.o.q: quarter-on-quarter % change.
MERVAL: <i>Mercado de Valores de Buenos Aires</i> . Executes, settles and guarantees security trades at the BCBA.	REM: BCRA Market expectation survey.
MEXBOL: <i>Índice de la Bolsa Mexicana de Valores</i> . México Stock Exchange Index.	ROA: Return on Assets.
MF: Mutual Funds.	ROE: Return on Equity.
MIPyME: <i>Micro, Pequeñas y Medianas Empresas</i> . Micro, Small and Medium Sized Enterprises.	Rofex: Rosario Futures Exchange.
MOA: <i>Manufacturas de Origen Agropecuario</i> . Manufactures of Agricultural Origin.	RPC: <i>Responsabilidad Patrimonial Computable</i> . Adjusted stockholder's equity, calculated towards meeting capital regulations.
MOI: <i>Manufacturas de Origen Industrial</i> . Manufactures of Industrial Origin.	RTGS: Real-Time Gross Settlement.
MP: Monetary Program.	s.a.: Seasonally adjusted.
MR: Market rate.	SAFJP: <i>Superintendencia de Administradoras de Fondos de Jubilaciones y Pensiones</i> . Superintendency of Retirement and Pension Funds Administrations.
MRO: <i>Main refinancing operations</i> .	SAGPyA: <i>Secretaría de Agricultura, Ganadería, Pesca y Alimentos</i> . Secretariat for agriculture, livestock, fisheries, and food.
MSCI: Morgan Stanley Capital International.	SEDESA: <i>Seguro de Depósitos Sociedad Anónima</i> .
NA: Netted assets.	SEFyC: Superintendence of Financial and Exchange Institutions.
NACHA: National Automated Clearinghouse Association.	SIOPEL: <i>Sistema de Operaciones Electrónicas</i> . Trading software used on the over-the-counter market.
NBFE: Non-Bank Financial Entities (under Central Bank scope)	SME: Small and Medium Enterprises.
NBFI: Non-Bank Financial Intermediaries (out of Central Bank scope)	SSN: <i>Superintendencia de Seguros de la Nación</i> .
NDP: National public debt.	TA: <i>Adelantos transitorios del BCRA al Tesoro</i> . Temporary advances.
NFPS: Non-financial national public sector's.	TD: Time Deposits.
Nobac: <i>Notas del Banco Central</i> . BCRA notes.	TFC: Total financial cost.
NPS: National Payments System.	TGN: <i>Tesorería General de la Nación</i> . National Treasury
NW: Net worth.	UFC: Uniform Federal Clearing.
O/N: Overnight rate.	UIC: Use of Installed Capacity.
OCT: <i>Operaciones Compensadas a Término</i> . Futures Settlement Round.	UK: United Kingdom.
OECD: Organization for Economic Co-operation and Development.	US\$: United States dollar.
ON: <i>Obligaciones Negociables</i> . Corporate bonds.	US: United States of America.
ONCCA: <i>Oficina Nacional de Control Comercial Agropecuario</i>	UTDT: Universidad Torcuato Di Tella.
OS: <i>Obligaciones Subordinadas</i> . Subordinated debt.	VaR: Value at Risk.
P / BV: Price over book value.	VAT: Value added Tax.
	WB: World Bank.
	WPI: Wholesale Price Index.

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